2012 ANNUAL REPORT

Shanghai Electric Group Company Limited

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

上海电气
SHANGHAI ELECTRIC

Contents

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)

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
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
Name of auditors appointed by the Company in the PRC	Ernst & Young Hua Ming, LLP
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	Clifford Chance
Legal advisers appointed by the Company as to Japanese Law	Anderson Mori & Tomotsune

Five-Year Financial Summary

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

	2008 (Restated) note 2	2009 (Restated) note 2	2010 (Restated) note 2	2011 (Restated) note 2	2012
RMB(million)					
Revenue and Profit					
Revenue	59,167	58,675	65,912	71,461	**76,591**
Profit before tax	4,106	2,890	3,343	4,917	**5,726**
Tax	(403)	8	(217)	(772)	**(1,344)**
Profit for the year	3,703	2,898	3,126	4,145	**4,382**
Attributable to:					
Owners of the parent	2,590	2,316	2,491	3,183	**2,715**
Non-controlling interests	1,113	582	635	962	**1,667**
Dividend	1,463	-	1,590	980	**817** note 1
Earnings per share attributable to ordinary equity holders of the parent					
Basic					
Profit for the year (cents)	21.69	18.51	19.60	24.82	**21.17**
Assets and Liabilities					
Non-current assets	18,222	20,430	22,080	23,387	**26,883**
Current assets	64,363	73,288	80,242	87,413	**91,816**
Current liabilities	(50,826)	(59,540)	(63,195)	(69,355)	**(73,786)**
Net current assets	13,537	13,748	17,047	18,058	**18,030**
Total assets less current liabilities	31,759	34,178	39,127	41,445	**44,913**
Non-current liabilities	(3,529)	(4,496)	(4,629)	(3,825)	**(4,231)**
Net assets	28,230	29,682	34,498	37,620	**40,682**
Equity attributable to owners of the parent	21,707	22,907	27,165	29,529	**30,506**
Non-controlling interests	6,523	6,775	7,333	8,091	**10,176**

Note 1: The proposed final dividend of approximately RMB817million for 2012 is subject to the approval at the forthcoming annual general meeting.

Note 2: Due to the business combinations under common control, the comparative amouts of the financial statements have been restated.

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' Report

During the reporting period, the global economy is undergoing a long period of adjustments while China remained on track for an economic recovery. Meanwhile, the energy industry is undergoing industrial structural adjustments and the equipment manufacturing businesses experiencing transformation and upgrade.

Chairman & CEO Xu Jianguo

2012 was a critical and difficult year for Shanghai Electric's transformation. Facing the extremely complex international and domestic economic situations, Shanghai Electric strictly adhered to its principle of "striving for achievements of overcoming challenges and continuous development in transformation." During the reporting period, the Company achieved a turnover of RMB76,591 million, representing an increase of 7.2% compared with that of the same period last year. The net profit attributable to the shareholders of the parent company amounted to RMB2,715 million, representing a decrease of 14.7% compared with that of the same period last year.

New Energy Equipment Segment

During the reporting period, the State Council resumed nuclear power plants construction and emphasized on nuclear safety in construction, rationalization based on scientific planning and also lifted up the industrial and technical entry barriers. Shanghai Electric mastered two major Gen III nuclear technologies, AP1000 and EPR and possessed the production capability of manufacturing full array of nuclear power equipments and established a comprehensive industry chain of nuclear island equipments. Our major products for nuclear island equipments included pressure vessel, steam generator, pressurizer, reactor vessel internals, control rods drive mechanisms, and nuclear pumps and valves. During the reporting period, we actively participated in the independent research and development of national CAP1400 nuclear power technology as to accelerate the domesticalisation in manufacturing process of CAP 1400 nuclear pump sample unit. Moreover, wind turbine joint ventures, co-founded by Shanghai Electric and Siemens, had commenced the operation and sped up the process in adopting the manufacturing technologies of 3 megawatt and 6 megawatt direct drive wind turbine products in order to further strengthen the Group's capability in the field of offshore wind power in the future.

During the reporting period, the segment achieved a turnover of RMB6,585 million, representing a year-on-year decrease of 8.2%. A breakdown of the segment turnover showed the turnover of wind turbine products fell by 23.9% and the turnover of nuclear island equipment amounted to RMB2,987 million, representing a year-on-year increase of 12.9%. Gross profit margin of the segment was 7.7%, representing a year-on-year decrease of 2.1 percentage points, mainly due to the decrease in the profit of the wind turbine products and forging components within the segment. However, the gross profit margin of nuclear island equipments increased by 5.8 percentage points as compared with last year. The operating profit of this segment incurred a loss during the reporting period, which was mainly due to the price reduction followed by the intense market competition for the wind turbine products and forging components.

High Efficiency and Clean Energy Equipment Segment

During the reporting period, we were gradually changing from passive manner in product development in view of satisfying the market need to proactive and innovative manner in research and development to induce products trend to increase market demand. Given the shrinking demand in the thermal power sector, we posed ourselves to upgrade our thermal power equipments through technological innovation, and by developing large capacity, high parameter, and energy-saving products. During the reporting period, we secured a contract to manufacture the 1000MW ultra-supercritical double reheat main power generation equipment for Guodian Taizhou Power Generation Plant Phase II (國電泰州電廠二期1000MW級超超臨界二次再熱組主機設備). The product was the first set of 1000MW ultra-supercritical double reheat power generation unit in mainland China and was also the only thermal power project selected in the 2012 National Science and Technology Support Program. Capitalizing on a new round of gas turbine market development, the Company obtained over RMB5 billion worth of new orders for gas turbines in 2012 and the accumulated gas turbine orders on hand exceeded RMB10 billion, which reached a new record. During the reporting period, our first overseas gas turbine EPC (engineering) project – 1 x 150MW gas turbine in Bangladesh was put into commercial operation, signifying that we were capable of undertaking both the domestic and overseas gas turbine EPC (engineering) projects. Our success in subcontracting those overseas projects resembled that we had already built up a solid foundation in exploring overseas gas turbines power engineering project in future. During the reporting period, the joint venture between Shanghai Electric and Shanghai Municipal Electric Power Company (國家電網上海電力公司) for manufacturing power transmission and distribution equipments officially commenced operation. In the future, we will capitalize on the joint venture partners' advantages in power transmission and distribution equipment manufacturing by actively taking part in the construction of the national smart power grid.

The high efficiency and clean energy equipment segment achieved a turnover of RMB35,727 million, representing a year-on-year increase of 18.4%. Gross profit margin and operating profit margin of this segment was 19.1% and 9.0%, respectively. The gross profit margin and operating profit margin of this segment had different level of decrease year-on-year, which was due to operating loss incurred by the heavy industrial products, such as metallurgy and grinding equipments in this segment.

Industrial Equipment Segment

During the reporting period, the elevator industry faced the market change from rapid expansion to slow-down in demand. Despite the Government imposed overall macroeconomic austerity policy as well as the increasing competition in the industry, our elevator business still managed a solid and stable development. Shanghai Mitsubishi Elevator continued to stay ahead of competition in the high speed passenger elevator market. It won various tenders for high speed passenger elevator projects in Chengdu Hilton Hotel, Shenyang Northeast World Trade Square and Huzhou Dadongwu International Plaza. Shanghai Mitsubishi Elevator also achieved good results in maintaining and developing relationships with major strategic customers. It was jointly recognised by China Real Estate Research Association (中國房地產研究會), China Real Estate Association and China Real Estate Appraisal (中國房地產測評中心) as premier supplier (for the category of elevator) preferred by the top 500 real estate developers in 2012. We also enhanced the product mix of electrical motors, and succeeded in developing a proprietary 2100kW high-frequency conversion high-speed permanent magnet synchronized motor (高速永磁變頻同步電機), which was a milestone in our mass production and commercialization of permanent magnet synchronized motor. We won a tender for provision of electric motors for the world's longest coal conveying pipeline - the Shenwei Coal Conveying Pipeline, which broke up the monopolization of international competitors over petrochemical explosion-proof electric motors (石化防爆電機). During the reporting period, our printing and packaging equipment business continued its product mix adjustment, upgraded its core technology, enhanced its management and improvement.

The industrial equipment segment achieved a turnover of RMB23,572 million, representing a year-on-year growth of 1.5%. The gross profit margin and operating profit margin of this segment increased steadily to 20.0% and 6.0%, respectively, which was mainly due to the steady increase of the revenue and profitability of the elevator products in this segment.

Modern Services Segment

Leveraging on our manufacturing capabilities and edges, we continued to optimize the resource allocation in the service industry. Having gained a foothold in Southeast Asia with our power plant EPC overseas projects, we extended our market network progressively to Middle East and South America. We also planned to expand our overseas market for transmission and distribution engineering under the existing market base from Sri Lanka, Ethiopia and other overseas countries to Southern Asia and Central Asia. According to the ranking of the largest 225 international engineering contractors in the world 2012 published in the U.S. magazine The Engineering News-Record, our ranking was 67th, 11 places higher than 2011. During the reporting period, our financial services continued to support and facilitate the development of our core businesses. We were building up the advantages of our financial service platforms in Shanghai and Hong Kong. We obtained the approval of the centralized operations management pilot of foreign exchange funds from the State Administration of Foreign Exchange and entered into the Global Cash Management Services Master Agreement (全球現金管理服務總協定) with the Bank of China which enabled cross-border treasure management and thus increased the efficiency of allocating funds to the Group's projects all over the world.

The modern services segment achieved a turnover of RMB19,549 million, representing a year-on-year increase of 27.3%, which was attributable to the steady growth in revenue for both power plant engineering and subcontracting business, and new revenue arising from power plant service business within the segment. The gross profit margin and operating profit margin of this segment were 9.8% and 4.8%, respectively, representing an increase of 3.1 and 4.8 percentage points as compared with last year, respectively. It was mainly due to the improvement of growth in revenue and profitability for both power plant engineering and subcontracting business, and power plant service business during the reporting period.

Looking ahead, we will continue with organic growth and sound and sustainable development. We will stay on track for strategic transformation, seize opportunities, enhance our capabilities and economic effectiveness. We will continue to strengthen our management, speed up the development of new businesses, lift our technological standard and sustain the development of the businesses in which we have advantages. These moves are part of the Group's endeavour for further development.

I would like to take this opportunity to express my gratitude to all the shareholders for their continuous support to the Group. I would also like to give my heartfelt thanks to the directors, supervisors, the management and the entire staff for their dedication and diligence.

Let us join hands and march forward, closely work together and achieve more fruitful results.

Xu Jianguo
Chairman
Shanghai, the PRC, 28 March 2013

Key Accounting Data and Financial Indicators

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	2012	2011 (Restated)	Change for the period over the corresponding period of the last year (%)
Operating revenue	77,076,743	71,863,158	7.25
Total profit	5,803,558	5,034,534	15.27
Net profit attributable to shareholders of the listed company	2,720,707	3,225,971	-15.66
Net cash flows generated from operating activities	6,672,128	274,963	2326.55
	At the end of 2012	At the end of 2011 (Restated)	Change for the end of the period over the end of the period of the last year (%)
Total assets	118,699,537	110,799,641	7.13
Equity attributable to shareholers of the listed company	30,506,562	29,528,467	3.31

Key financial indicators	2012	2011 (Restated)	Change for the period over the corresponding period of the last year (%)
Basic earnings per share (RMB/share)	0.21	0.25	-16.00
Diluted earnings per share (RMB/share)	0.21	0.25	-16.00
Weighted average net assets return rate (%)	8.98	11.39	Decreased by 2.41 percentage points
Net cash flows per share generated from operating activities (RMB/share)	0.52	0.02	2500.00
	At the end of 2012	At the end of 2011 (Restated)	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)	2.38	2.30	3.48

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 (Restated)	At the end of the period	At the beginning of the period
In accordance with the PRC GAAP	2,720,707	3,225,971	30,506,562	29,528,467
Items and amounts adjusted in accordance with HKFRSs:				
Staff bonus and welfare funds	(31,756)	(42,833)	-	-
Safe production expenditures	25,925	-	-	-
In accordance with HKFRSs	2,714,876	3,183,138	30,506,562	29,528,467

Note: During the reporting period, the Company started to implement the "Administrative Measures for the Withdrawal and Use of Expenses for Safety Production Expenditures" published jointly by Ministry of Finance and State Administration of Work Safety in 2012 and made provision for safe production expenditures accordingly.

Shareholding Structure and Disclosure of Interests

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 2012, 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	7,898,980,620	Long position	80.19	61.60
	H	Interest of controlled corporation	1	30,258,000	Long position	1.02	0.24
Shanghai Electric (Group) Corporation	A	Beneficial owner	1	7,409,088,498	Long position	75.21	57.78
	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		313,320,736	Long position	10.54	2.44
Government of Singapore Investment Corporation Pte Ltd.	H	Investment manager		149,984,699	Long position	5.05	1.17
Siemens International Holding B.V.	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
Siemens Beteiligungen Management GmbH	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
Siemens Aktiengesellschaft	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
JP Morgan Chase & Co.	H	Beneficial owner	3	13,787,786	Long position	0.47	0.12
	H	Investment manager	4	88,000	Long position	0.00	0.00
	H	Custodian corporation	4	282,800,072	Long position	9.51	2.21
	H	Total long position	4	296,675,858		9.98	2.31
	H	Beneficial owner	4	2,125,826	Short position	0.07	0.02
Blackrock, Inc.	H	Interest of controlled corporation	5	182,400,942	Long position	6.14	1.42
	H	Interest of controlled corporation	5	6,983,998	Short position	0.23	0.05

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 7,439,346,498 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 respectively. 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 296,675,858 shares (Long position) and 2,125,826 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 282,800,072 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 12,173,196 shares (Long position) and 524,000 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 plc held 1,614,590 shares (Long position) and 1,601,826 shares (Short position) in the Company. J.P. Morgan Securities plc 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) J.P. Morgan Investment Management Inc. held 88,000 shares (Long position) in the Company. J.P. Morgan Investment Management Inc. was wholly-owned by JPMorgan Asset Management Holdings Inc. JPMorgan Asset Management Holdings Inc. was wholly-owned by JPMorgan Chase & Co.

(4.5) The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 282,800,072 shares (Long position). Besides, 524,000 shares (Short position) were held through derivatives as follows:-

438,000 shares (Short position)	- through cash settled (listed derivatives)
86,000 shares (Short position)	- through physically settled (unlisted derivatives)

(5) BlackRock, Inc. held interest in a total of 182,400,942 shares (Long position) and 6,983,998 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 1,656,000 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 Institutional Trust Company, N.A. held 75,468,114 shares (Long position) and 1,206,000 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. held 2,744,694 shares (Long position) in the Company. 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 Fund Advisors held 26,242,000 shares (Long position) in the Company. BlackRock Fund Advisors was wholly-owned by BlackRock Delaware Holdings, Inc., referred to in (5.2) above.

(5.4) BlackRock Advisors, LLC. held 7,101,809 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.

(5.5) BlackRock International Holdings Inc. was deemed to hold interest in 69,188,325 shares (Long position) and 5,777,998 shares (Short position) in the Company. BlackRock International Holdings Inc. was wholly-owned by BlackRock Advisors Holdings Inc., referred to in (5.4) above.

(5.6) BlackRock Asset Management Canada Limited held 272,000 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., referred to in (5.5) above.

(5.7) BlackRock Japan Co. Ltd. held 350,000 shares (Long position) in the Company. BlackRock Japan Co. Ltd. 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 (5.6) above.

(5.8) BlackRock Asset Management Australia Limited held 304,000 shares (Long position) in the Company. BlackRock Asset 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 (5.6) above.

(5.9) BlackRock Asset Management North Asia Limited held 1,147,939 shares (Long 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 (5.6) above.

(5.10) Blackrock Advisors (UK) Limited held 24,111,998 shares (Long position) and 5,777,998 shares (Short position) in the Company. BlackRock (Netherlands) B.V. held 40,000 shares (Long position) in the Company. Both corporations were wholly-owned by BlackRock Group Limited, the latter was wholly-owned by BR Jersey International LP, referred to in (5.6) above.

(5.11) BlackRock (Luxembourg) S.A. held 9,749,121 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 (5.10) above.

(5.12) BlackRock Asset Management Ireland Limited held 19,999,100 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 (5.11) above.

(5.13) BlackRock Investment Management (Korea) Limited held 394,000 shares (Long position). BlackRock Investment Management (Korea) Limited was wholly-owned by BlackRock Fund Managers Limited, the latter was deemed to hold interest in the aforesaid 394,000 shares (Long position). BlackRock Fund Managers Limited held 2,831,598 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 2,831,598 shares (Long position). BlackRock Investment Management (UK) Limited held 6,732,569 shares (Long position) in the Company. BlackRock Investment Management (UK) Limited was wholly owned by BlackRock Group Limited, referred to in (5.10) above.

(5.14) BlackRock Life Limited held 1,460,000 shares (Long position) in the Company. BlackRock Life Limited was wholly-owned by BlackRock International Limited, the latter was deemed to hold interest in the aforesaid 1,460,000 shares (Long position). BlackRock International Limited held 1,796,000 shares (Long position) in the Company. BlackRock International Limited was wholly owned by BlackRock Group Limited, referred to in (5.10) 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 2012, had an interest or short positions in the shares and underlying shares of the Company.

Directors', Supervisors' and Chief Exeutive Interests and Short Positions in Shares, Underlying Shares and Underlying Debentures of the Company

As at 31 December 2012, 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 2012, 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	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	61	15 December 2010	14 December 2013				Yes
Zhu Kelin	Vice Chairmen and Non-executive Director	Male	50	15 December 2010	14 December 2013				Yes
Huang Dinan	Executive Director and President	Male	46	15 December 2010	14 December 2013			90.6	No
Xu Ziying	Executive Director	Female	43	25 May 2011	14 December 2013				No
Yu Yingui	Executive Director and Chief Financial Officer	Male	62	15 December 2010	14 December 2013			70.6	Yes
Yao Minfang	Non-executive Director	Female	45	15 December 2010	14 December 2013				No
Zhu Sendi	Independent Non-executive Director	Male	72	15 December 2010	14 December 2013			25	Yes
Cheung Wai Bun	Independent Non-executive Director	Male	76	15 December 2010	14 December 2013			25	No
Lui Sun Wing	Independent Non-executive Director	Male	62	15 December 2010	14 December 2013			25	No
Dong Jianhua	Chief Supervisor	Male	47	15 December 2010	14 December 2013				No
Xie Tonglun	Supervisor	Male	56	15 December 2010	14 December 2013			34.4	Yes
Li Bin	Supervisor	Male	52	15 December 2010	14 December 2013				No
Zhou Changsheng	Supervisor	Male	47	15 December 2010	14 December 2013				No
Zheng Weijian	Supervisor	Male	51	15 December 2010	14 December 2013				Yes
Chen Ganjin	Vice President	Male	44	28 September 2011	14 December 2013			60.6	Yes
Huang Ou	Chief Technology Officer	Male	41	17 June 2011	14 December 2013			78	No
Li Jing	Chief Information Officer	Female	45	17 June 2011	14 December 2013	2,996	2,996	65.6	No
Tong Liping	Chief Legal Officer	Female	41	17 June 2011	14 December 2013			60.6	No
Fu Rong	Secretary to the Board	Female	42	15 December 2010	14 December 2013			34.4	No
Leung Ka Lok	Company Secretary	Male	42	16 February 2011	14 December 2013			110	No
Total						2,996	2,996	679.8	


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Directors

Xu Jianguo

Huang Dinan

Xu Ziying

Xu Jianguo, aged 61, joined the Company in September 2006 and is the chairman, an executive director and chief executive officer of the Company. He is also the chairman 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's degree in economics and is a senior economist.

Huang Dinan, aged 46, joined the Company in March 2004 and is an executive director and the president of the Company. He is also the vice chairman 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's degree in engineering. He is a senior engineer of professor level.

Xu Ziying, aged 43, 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 Shanghai Automation Instrumentation Co., Ltd. since May 2008 and the vice chairman of Shanghai Rail Traffic Equipment Co., Ltd since January 2013. 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 extensive experience in strategic planning and industrial development. Ms. Xu graduated from Shanghai Jiao Tong University with a master's degree in management and is an economist.

Yu Yingui, aged 62, 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.

Yu Yingui

Zhu Kelin, aged 50, joined the Company in March 2004 and is a vice chairman and a non-executive director of the Company. Mr. Zhu has extensive experience in business administration. Mr. Zhu has been the chairman of Shenzhen Fengchi Investment Co., Ltd. from May 2007 to July 2012, the director of Shenzhen Fengchi Investment Co., Ltd. from May 2007 to present; and the vice chairman of Guangdong Zhujiang Investment Holding Group Co., Ltd. from February 2008 to July 2011 and has been the chairman of Guangdong Zhujiang Investment Joint Stock Co., Ltd from December 2007 to the present. Mr. Zhu graduated from University of Western Sydney with a master's degree in business administration.

Zhu Kelin

Yao Minfang, aged 45, joined the Company in November 2007 and is a non-executive director of the Company. She was the head and deputy manager of 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 the dynamics department of University of Shanghai for Science and Technology with a master's degree and is a senior engineer.

Yao Minfang

Zhu Sendi

Zhu Sendi, aged 72, joined the Company in November 2008 and is an independent non-executive director of the Company. He is a special advisor and a honorable director of the 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. Mr. Zhu also serves as an independent director of Taiyuan Heavy Machinery (Group) Co., Ltd., and 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, as well 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 the executive vice president of China Machinery Industry Federation. Mr. Zhu graduated from the physics department of Anhui University and is a senior engineer of professor level.

Cheung Wai Bun

Dr. Cheung Wai Bun, Charles, J.P., aged 76, joined the Company in November 2004 and is an independent non-executive director of the Company. Dr. Cheung possesses the relevant financial management expertise as required by the Listing Rules, including the experience in internal controls and reviewing or analyzing audited financial statements. Dr. Cheung is presently the chairman of Joy Harvest International Limited in Hong Kong, director and vice chairman of Executive Committee of the Metropolitan Bank (China) Ltd, a senior advisor of Metropolitan Bank & Trust Co. Philippines, an independent director and a 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 the main Board in Hong Kong, independent director of Universal Technologies Holdings Limited (listed on the main Board in Hong Kong), independent director and chairman of Remuneration Committee of Grand T.G Gold Holding Limited (listed on the GEM Board in Hong Kong), Executive Chairman of Lightscape Technologies Inc. and advisor of Twin Wealth Group, Hong Kong. He is visiting professor, School of Business, Nanjing University 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 director and advisor of the Tung Wah Group. He has held senior management positions in various companies of different industries and possessed extensive experience. 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 accounting 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 (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.

Lui Sun Wing

Dr. Lui Sun Wing, aged 62, joined the Company in December 2010 and is an independent non-executive director of the Company. Dr. Lui worked at the Hong Kong Productivity Council from October 1981, and served in various positions. In December 1992, he was promoted to the vice-president, primarily providing the R&D, consultancy and training services for industrial and commercial sector as well as enhancing corporate management and productivity. 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 independent non-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 47, joined the Company in December 2010 and 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 25 years. Mr. Dong graduated from Shanghai Tongji University with a bachelor's degree in engineering. He also obtained a master's degree in business administration from Shanghai Jiao Tong University. Mr. Dong is a senior economist.

Xie Tonglun, aged 56, joined the Company in March 2004 and is an employee representative of the supervisory committee of the Company. He is also the director of the office 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 bachelor's degree in business administration from Shanghai Administration Institute. Mr. Xie is a senior policy advisor.

Li Bin, aged 52, 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 has been 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 a 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 47, 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 51, is a supervisor of the Company, 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 a master's degree of business administration of Macau University of Science and Technology. He is also an accountant and senior International Finance Manager.

Senior Management

Chen Ganjin, aged 44, joined the Company in 1993 and is the vice president of Shanghai Electric Group Company Limited, the chairman of Shanghai Heavy Machinery Plant Company Ltd. and the vice chairman of Shanghai Rail Traffic Equipment Development Co., Ltd. Previously, Mr. Chen had served as the Secretary of Communist Party and Chairman of Shanghai Boiler Works, Ltd., the Deputy Secretary of Communist Party, Director and Executive Vice President of Shanghai Electric Power Generation Group, Communist Party Secretary, General Manager of Shanghai Station Auxiliary Machine Co., Ltd., a Director, General Manager and Communist Party Deputy Secretary of Shanghai Diesel Engine Co., Ltd., Communist Party Secretary, General Manager and Vice Chairman of Shanghai Rail Traffic Equipment Development Co., Ltd. and Deputy Head of Industry Development Division of Shanghai Electric Group Company Limited, and Assistant to President and chief operation officier 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's degree of business administration from China Europe International Business School and a master's degree of Professional Accounting from the Chinese University of Hong Kong.

Huang Ou, aged 41, joined the Company in 1996 and is the Chief Technology Officer and head of the Science and Technology Management Department of the Company, secretary of the communist party and standing president of the Central Research Institute of Shanghai Electric (Group) Corporation, executive vice president of Shanghai Electric Power Generation Group and vice chairman of Shanghai Electric Power Generation Equipment 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 2012. 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 45, joined the Company in 1989 and is the Chief Information Officer and director of the information management department of the Company. Ms. Li has long been engaged in informatization work for the entities under the parent Group and has over 23 years of extensive experience in IT and information management. She has served as Chief Information Officer and department head of the IT Department of Shanghai Electric Power Generation Group since 2004. Ms. Li is an expert in the field of domestic manufacturing informatization. Ms. Li obtained a bachelor's degree in computer engineering and a master's degree in accounting and is a senior engineer of professorial level.

Tong Liping, aged 41, joined the Company in 1993 and currently serves as the Chief Legal Officer, director of legal department and the solicitor of the Company. Ms. Tong has long been engaged in in-house works and is experienced in managing corporate legal affairs who has rick knowledge in relevant laws. She served as the director of the legal and audit office and department head of legal department of Shanghai Electric Power Generation Group from 2004 to 2010, director of the legal affairs centre of the Company from 2006 to 2008, and taking up the responsibility of the deputy director, director of the legal department and then the chief legal counsel of the Company since 2008. Ms. Tong graduated from Shanghai Fudan University with a master's degree in law.

Fu Rong, aged 42, 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's degree in management and is an economist.

Leung Ka Lok, aged 42, joined the Company in January 2011 and is the Company Secretary and the deputy head of the Investor Relations Department of the Company. He formerly 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 bachelor's degree in accounting from the City University of Hong Kong and a master's degree in business administration from the University of Manchester and is a member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants.

The positions held by current and resigned directors, supervisors and senior management during the reporting period

Positions in shareholding entities

Name of Staff	Name of shareholding entities	Position of the shareholding entities	Commencement of term	End of term
Xu Jianguo	Shanghai Electric (Group) Corporation	Chairman	August 2006	Up to present
Huang Dinan	Shanghai Electric (Group) Corporation	Vice Chairman	January 2004	Up to present
Xu Ziying	Shanghai Electric (Group) Corporation	Vice President	April 2008	Up to present
Zhu Kelin	Fengchi Investment Co., Ltd.	Chairman	May 2007	July 2012
Zhu Kelin	Fengchi Investment Co., Ltd.	Director	July 2012	Up to present
Dong Jianhua	Shanghai Electric (Group) Corporation	Chief Financial Officer	April 2008	Up to present
Yao Minfang	Shenergy Group Company Limited	Manager of the Investment Department	March 2009	Up to present
Zhou Changsheng	Shenergy Group Company Limited	Deputy Director of the Audit Office	February 2009	Up to present

Positions in other entities

Name of Staff	Name of shareholding entities	Position of the shareholding entities	Commencement of term	End of term
Xu Jianguo	Shanghai Mechanical & Electrical Industry Company Limited	Chairman	24 May 2012	23 May 2015
Zhu Kelin	Guangdong Zhujiang Investment Company Limited	Chairman	December 2007	Up to present
Xu Ziying	Shanghai Automation Instrumentation Co., Ltd.	Chairman	28 June 2011	27 June 2014
Yu Yingui	Shanghai Mechanical & Electrical Industry Company Limited	Chief Supervisor	24 May 2012	23 May 2015
	Shanghai 3F New Materials Company Limited	Independent Director	20 April 2011	19 April 2014
Zhu Sendi	China Machinery Industry Federation	Special Adviser	May 2009	May 2014
	China Machinery Industry Federation Experts Committee	Honorable Director	February 2010	May 2014
	Advisory Committee for State Informatization	Committee Member	April 2004	April 2012
	Chinese Mechanical Engineering Society	Supervisor	2011	2015
	China International Engineering Consulting Corporation	Advisor of Experts Committee	January 2011	January 2014
	Taiyuan Heavy Machinery (Group) Co., Ltd.	Independent Director	18 June 2010	17 June 2013
	Hangzhou Advance Gearbox Group Co., Ltd.	Independent Director	29 September 2011	28 September 2014
Cheung Wai Bun	Joy Harvest International Limited	Chairman	March 2004	Up to present
	Metropolitan Bank (China) Ltd	Director and vice chairman of Executive Committee	2 February 2010	20 February 2014
	Metropolitan Bank & Trust Company, Philippines	Senior Adviser	April 2009	April 2013
	Pioneer Global Group Limited	Independent Non-executive Director and Chairman of Audit Committee	June 1999	September 2013
	China Financial International Investments Limited	Independent Non-executive Director and Chairman of Audit Committee	March 2001	December 2014
	Grand T G Gold Holdings Limited	Chairman of Board of Director	November 2012	Up to present

Positions in other entities

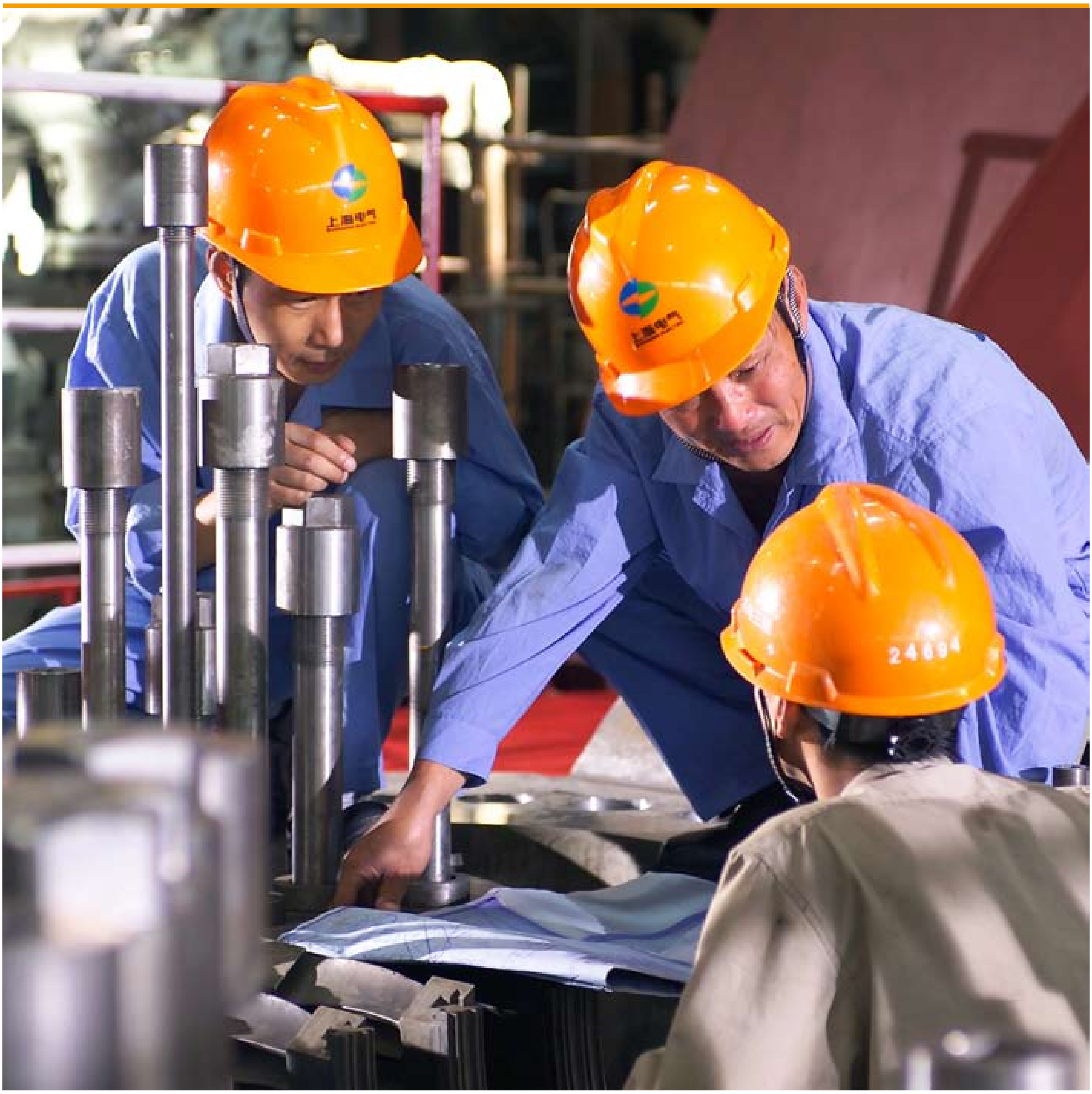
Name of Staff	Name of shareholding entities	Position of the shareholding entities	Commencement of term	End of term
Cheung Wai Bun	Grand T G Gold Holdings Limited	Independent Director and Chairman of Remuneration Committee	July 2009	Up to present
	China Resources Bank of Zhuhai Co., Ltd.	Independent Director and Chairman of Audit Committee	December 2009	December 2015
	Twin Wealth Holdings Limited	Consultant	October 2011	October 2013
	Universal Technologies Holdings Limited	Independent Director	September 2011	September 2013
	Lightscape Technologies Inc.	Executive Chairman	November 2010	November 2013
Lui Sun Wing	EVA Precision Industrial Holdings Limited	Independent Non-executive Director	January 2005	January 2013
	Leeport (Holdings) Limited	Independent Non-executive Director	May 2003	Up to present
	Eco-Tek Holdings Limited	Non-executive Director	January 2001	Up to present
	Leo Paper Group (Hong Kong) Limited	Independent Non-executive Director	April 2010	Up to present
Li Bin	Shanghai Electric Hydraulic & Pneumatics Co., Ltd.	Chief Technologist	December 1980	Up to present
Zhou Changsheng	Anhui Wuhu Nuclear Power Co., Ltd	Chief Auditor	March 2009	Up to present
	Shanghai CP Guojian Pharmaceutical Co., Ltd	Independent Director	October 2010	Up to present
Zheng Weijian	Guangdong Zhujiang Investment Co., Ltd	Chairman of Supervisory Committee	January 2008	Up to present
	Shenzhen Yunfeng Guaranty & Investment Co., Ltd.	Director	January 2006	Up to present
	Guangdong Zhicheng Investment Co., Ltd.	Supervisor	September 2008	Up to present
Chen Ganjin	Shanghai Mechanical & Electrical Industry Company Limited	Director	24 May 2012	23 May 2015
Tong Liping	Shanghai Highly (Group) Co., Ltd.	Supervisor	17 June 2011	16 June 2014

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) are determined in the general meeting, while the remunerations of our Senior Management are determined by the board of directors of the Company
Basis for determining the remunerations of Directors, Supervisors and Senior Management	The remunerations of our Directors and Supervisors (non-employee representatives) 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 degree of completion of annual operation plan.
The remunerations payable to Directors, Supervisors and Senior Management	The Company has paid the remunerations to its Directors, Supervisors and Senior Management based on their respective entitlement
Total actual remunerations received by all Directors, Supervisors and Senior Management at the end of Reporting Period	approximately RMB 6.80 million

Changes of Directors, Supervisors and Senior Management of the Company

There are no changes of Directors, Supervisors and Senior Management of the Company during the Reporting Period.



Employees of the Company

Staff

Number of current staff in the parent company	80
Number of current staff in the principal subsidiaries	30,219
Total number of current staff	30,299
Number of retired staff for whom the Company and the principal subsidiaries are responsible for the retirement benefits	293

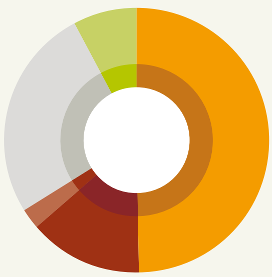
Personnel classification

Personnel categories	Number of employees
Production personnel	15,126
Sales personnel	2,330
Technical personnel	7,905
Financial personnel	727
Administration personnel	4,211
Total	30,299

Education Level

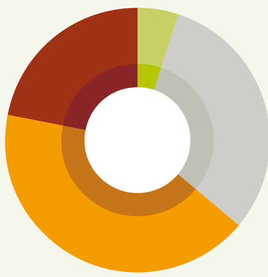
Categories by education level	Number of employees
Postgraduate and above	1,598
Undergraduate	9,353
Tertiary education	6,632
Secondary education and below	12,716
Total	30,299

Statistical chart of professional composition



	Headcount
Production personnel	15,126
Sales personnel	2,330
Technical personnel	7,905
Finacial personnel	727
Administrative personnel	4,211

Statistical chart of education level



	Headcount
Postgraduate and above	1,598
Undergraduate	9,353
Tertiary education	6,632
Secondary education and below	12,716

Contracted Labour

Total remuneration paid to contracted labour	RMB 309 million

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' Interest 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, neither the Company nor any of its subsidiaries does not have any incentive Share Option Scheme.

Corporate Governance

The Board 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, including but not limited to the code provisions set out in the Code on Corporate Governance Practices and Corporate Governance Report (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and to ensure 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 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.

Securities Transactions by Directors

The Company has adopted the code provisions regarding the purchase and sale of the Company's shares by the Directors on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All Directors and Supervisors confirmed that they had complied with the requirements contained in the Model Code throughout the year 2012. The Company was not aware of any non-compliance of the Model Code by any staff.

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 biographical particulars are set out in the "Directors, Supervisors, Senior Management and Staff" section of this 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 with the Company as required under Rule 3.13 of the Listing Rules on The Stock Exchange of Hong Kong Limited annually. The Company has received the annual confirmations from such Directors and considered them to be independent in 2012.

Powers and duties of the Board and the management have been specified in the Articles of Association to ensure adequate check and balance for sound corporate governance and internal control.

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 of the Company, under the leadership of the General Manager (also an Executive Director), is responsible for implementing various resolutions made by the Board and organizing daily operation and management of the Company.

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, familial or other material relationships among the Directors, Supervisors and Senior Management.

The Company attaches great importance to the continuous training on various areas of the directors. During the reporting period, the Company arranged the directors to study the materials on areas including business, law and finance, so as to continuously increase the professional knowledge of the directors.

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.

The attendance of directors of the Board's meeting

		Attendance at the Board meetings						Attendance at the general meetings
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	Attendance rate at general meetings (%)
Xu Jianguo	No	9	4	5	0	0	No	50
Zhu Kelin	No	9	3	5	1	0	No	0
Huang Dinan	No	9	4	5	0	0	No	50
Xu Ziying	No	9	4	5	0	0	No	50
Yu Yingui	No	9	4	5	0	0	No	100
Yao Minfang	No	9	4	5	0	0	No	50
Zhu Sendi	Yes	9	4	5	0	0	No	100
Cheung Wai Bun	Yes	9	4	5	0	0	No	50
Lui Sun Wing	Yes	9	4	5	0	0	No	50

Number of Board meetings held for the year	9
Of which: Number of physical meetings	4
Number of meetings held via electronic communications	5
Number of meetings held by the way combining physical meeting and electronic communication	0
Number of general meetings held for the year	2

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 of the Company, 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 management has been well maintained and there exists no problem of over centralization of management power on one particular individual.

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 making recommendations for improvement to the Board of Directors. The Audit Committee is also responsible for reviewing the interim and annual financial statements, connected transactions, the appointment of and remuneration for auditors.

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.

Seven meetings of the Audit Committee were convened during the reporting period. 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 and annual financial reports, profit distribution plan of the Company, and the appointment of and remuneration for auditors.

During the reporting period, the attendance at the meetings of the Audit Committee was as follows (Number of attendance number of meetings ought to attend):

Name of Audit Committee Member	Number of attendance number of meetings ought to attend
Cheung Wai Bun (Chairman of the Committee)	7/7
Zhu Sendi	7/7
Lui Sun Wing	7/7
Yao Minfang	7/7

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.

Two meetings of the Remuneration Committee was held during the reporting period, at which the Remuneration Committee considered the remunerations for the directors, supervisors and the senior management of the Company, formulated the remuneration procedures, and set the incentive compensation plan for the management of the Company to achieve the business objectives.

During the reporting period, the attendance at the meetings of the Remuneration Committee was as follows (Number of attendance/ number of meetings ought to attend):

Name of Remuneration Committee Member	Number of attendance/ number of meetings ought to attend
Lui Sun Wing (Chairman of the Committee)	2/2
Huang Dinan	1/2
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.

Nomination Committee

The Nomination Committee was newly established by the Board of the Company on 23 March 2012. The Nomination Committee of the Company 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 of the Company and at general meetings.

The Nomination Committee is currently composed of Mr. Zhu Sendi, Mr. Huang Dinan and Dr. Cheung Wai Bun, and chaired by Mr. Zhu Sendi.

Directors' and Auditors' Responsibilities for Accounts

The directors of the Company acknowledge their responsibilities for the preparation of financial reports for each financial year which give a true and fair view of the financial position, the results and cash flows of the Group for that financial year. In preparing the financial report for the year ended 31 December 2012, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable and have prepared the financial reports on the going concern basis. The directors are ultimately responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Supervisory Committee

The Supervisory Committee 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 of the Company 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 (Number of attendance number of meetings ought to attend):

Name of Supervisors	Number of attendance/ number of meetings ought to attend
Dong Jianhua	6/6
Xie Tonglun	6/6
Li Bin	5/6
Zhou Changsheng	6/6
Zheng Weijian	6/6

Senior Management

As at the end of 2012, the Company has 8 members of senior management in total, namely Huang Dinan, Yu Yingui, Chen Ganjin, Huang Ou, Li Jing, Tong Liping, Fu Rong and Leung Ka Lok. The details of their duties, particulars and compensation are set out in the section headed"5. Directors, Supervisors, Senior Management and Staff".

Internal Control

Pursuant to relevant legal and regulatory requirements of the Ministry of Finance, CSRC, National Audit Office, CBRC, the "Basic Standards of Internal Controls for Enterprises" and the supplementary guidelines of CIRC, as well as the listing rules of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the Company has compiled the "Internal Control Handbook" based on the actual situation to establish a comprehensive and effective internal control system in five aspects, namely internal environment, risk assessment, control activities, information and communication, and internal supervision.

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 2012, the Company has complied with the requirements of C.2.1 of Appendix 14 of the Listing Rules.

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. 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 developed "Assessment and Management Methods of Internal Controls" and formed a risk-oriented self-assessment group every year to formulate the work plan for the purpose of self-assessing the internal controls of the Company, identifying internal control defects, making recommendations for improvement, and ensuring corrective measures proposed from previous audit having been adopted and implemented, in order to continuously enhance the effectiveness of the internal controls of the Company. The assessment group has prepared a self-assessment report on internal controls according to the assessment results and submitted to the Audit Committee and the Board for their considerations for disclosure to the public as required. During the reporting period, the Company did not identify any significant internal control defects in the course of self-assessment of the internal controls.

According to the requirements, the Company engaged Ernst & Young Hua Ming, LLP in 2012 to carry out an audit on the effectiveness of the internal controls related to the financial reports of the Company, and issued an audit report with standard views with respect to the 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 or extraordinary general meetings of the Company 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.

Shareholders may convene an extraordinary general meeting and make proposals on the meeting in accordance with Articles 87 and 64 of the Articles of Association, whose latest version was published on the websites of the Company and the Hong Kong Stock Exchange.

Communications with shareholders

The Company releases its announcements, financial data and other relevant data on its website, which serves as a channel facilitating effective communication. The shareholders may send any enquiry in writing to the Company's principal place of business in Hong Kong. The Company will properly handle all enquiries in time.

Company Secretary

Mr. Leung Ka Lok is the company secretary of the Company. According to the relevant requirements of the Listing Rules, Mr. Leung Ka Lok participated in the relevant compliance training organised by the Hong Kong Stock Exchange and Clifford Chance during the reporting period and the training was no less than 15 hours in total.

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 actively 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.

Other Matters of Report

During the reporting period, a special resolution has been passed at the 2011 annual general meeting ("2011 AGM") of the Company on 29 May 2012 to amend the relevant provisions of the Articles of Association to further improve the corporate governance of the Company and conform to the requirements under the Listing Rules. Please refer to the circular of 2011 AGM dated April 6, 2012 published at the websites of both the Stock Exchange of Hong Kong Limited and the Company for the details of amendments.

Summary of General Meetings

Session of the meeting	Date of meeting	Information disclosure newspapers for publishing the resolutions	Date of information disclosure for publishing the resolutions
Annual General Meeting of the Company for 2011	29 May 2012	China Securities Daily, Shanghai Securities Daily, Securities Times Daily	30 May 2012
The first extraordinary general meeting for 2012	28 September 2012	China Securities Daily, Shanghai Securities Daily, Securities Times Daily	29 September 2012

Report of the Directors

Business Review

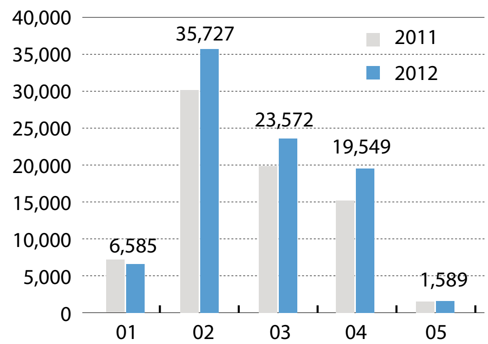
During the reporting period, the Company achieved a turnover of RMB76,591 million, representing an increase of 7.2% compared with that of the same period last year. The net profit attributable to the shareholders of the parent company amounted to RMB2,715 million, representing a decrease of 14.7% compared with that of the same period last year.

Business Review of Major Business Segments

(in RMB million)

2012	Revenue	Cost of Sales	Gross Profit Margin	Year-on-year Change in Revenue (Note 1)	Year-on-year Change in Cost of Sales (Note 1)	Year-on-year Change in Gross Profit Margin (Note 1)
New Energy Equipment	6,585	6,081	7.7%	-8.2%	-6.0%	-2.1 percentage points
High Efficiency and Clean Energy Equipment	35,727	28,911	19.1%	18.4%	22.5%	-2.7 percentage points
Industrial Equipment	23,572	18,867	20.0%	1.5%	-0.2%	1.5 percentage points
Modern Services	19,549	17,624	9.8%	27.3%	23.1%	3.1 percentage points
Other Business	1,589	1,269	20.1%	5.8%	1.3%	3.5 percentage points
Elimination	(10,431)	(10,150)	2.7%	75.1%	71.7%	1.9 percentage points
Total	**76,591**	**62,602**	**18.3%**	**7.2%**	**6.7%**	**0.4 percentage points**

Note 1: The calculation of relevant ratios is based on restated figures of 2011



01 New Energy Equipment
02 High Efficiency and Clean Energy Equipment
03 Industrial Equipment
04 Modern Services
05 Other Business

Major Customers

The Company's total sales revenue during the year from five largest customers was RMB12,187,820,000, representing 15.91% of the total sales revenue of the Company.

Major Suppliers

The Company's total purchases amount during the year from five largest suppliers was RMB4,901,407,000, representing 8.33% of the total purchases amount of the Company.

During the reporting period, the scientific research of the Company was mainly invested into three major business segments of new energy equipment, high efficiency and clean energy equipment and industrial equipment, of which the focus was set on new high technology industrialisation projects. In 2012, Shanghai Electric achieved significant scientific research results.

NEW ENERGY EQUIPMENT

1. The AP1000 third generation nuclear reactor vessel internals and control rods drive mechanisms manufacturing technology has been mastered, reaching 100% manufacture domesticalisation. AP1000 pressurizers, AP1000 core make-up tank, modified second generation plus 1,000 MW nuclear reactor pressure vessels and modified second generation plus 1,000 MW nuclear steam generator had successfully passed the accreditation of product technology by China Machinery Industry Federation and China Nuclear Energy Association, and the technical appraisal of the product was carried out by the respective academists in charge who are the members of the Appraisal Committee.

2. As for the CAP1400 demonstration engineering main pump, the preliminary design of the main pump of Shanghai Electric had been endorsed by the design panel of CAP1400 demonstration engineering main pump under the Shanghai Nuclear Engineering Research and Design Institute.

3. All the technological development and industrialization of large-scale wind power research and manufacturing project had been accomplished, and had been officially applied for special inspection for projects of industrialization of high and new technology.

HIGH EFFICIENCY AND CLEAN ENERGY EQUIPMENT

1. double reheat projects had achieved breakthrough, finishing the preliminary design solution of the 1,000MW reheat unit equipments, where the power output efficiency of 1,000MW ultra super-critical thermal power equipment was up to 47.94%, up 2.12 percentage points than the best similar unit available at the present, with coal consumption lowered by 5g/Kwh.

2. IGCC project had relied on the Greengen, a project in Tianjin, finishing the design and manufacturing of gas turbine and gasifier. The installation and testing and adjustment of the sample machine completed and put into operations.

3. the technical solution and design for turbine, generator, boiler and auxiliary equipment in respect of 1,200MW class thermal power unit project had been accomplished.

INDUSTRIAL EQUIPMENT

1. The Company had completed the testing and assessment on the reliability of LEHY-H elevator products at an operating speed of 6m/s, the corresponding product categorization and product industrialization.

2. The three national scientific significant special project R&D undertaken in 2012 had been in progress as planned. The topics of complete grinding equipment of high precision ball screw and screw nut and the ultra precision large size optical glass surface grinder had entered the stage of manufacturing and assembling, and premium digital grinder high efficiency precision hydrostatic spindles / hydrodynamic-hydrostatic spindle and guideway system research and industrialization technology had also entered into the fundamental study stage.

Review of the principal activities by geographical areas

(in RMB million)

Geographical Areas	2012 Sales Revenue	2012 Proportion	2011 Sales Revenue (Restated)	2011 Proportion (Restated)
Mainland China	58,687	76.6%	52,872	74.0%
Elsewhere	17,904	23.4%	18,589	26.0%
Total	**76,591**	**100.00%**	**71,461**	**100.0%**

Analysis of the financial position

Items in the statement of financial position

(in RMB million)

	End of the Year	Proportion in Total Assets	Beginning of the Year (Restated)	Proportion in Total Assets (Restated)
Assets				
Cash and cash equivalents	22,142	18.7%	19,624	17.7%
Trade receivables	20,606	17.4%	19,030	17.2%
Prepayments, deposits and other receivables	10,666	9.0%	10,572	9.5%
Inventories and construction contracts	23,410	19.7%	22,244	20.1%
Liabilities				
Short-term interest-bearing bank and other borrowings	3,419	2.9%	689	0.6%
Trade payables	24,031	20.2%	21,300	19.2%
Other payables and accruals	38,626	32.5%	37,985	34.3%
Bonds	-	-	1,000	0.9%
Long-term interest-bearing bank and other borrowings	2,029	1.7%	2,183	2.0%
Total liabilities	78,018	65.7%	73,180	66.0%
Total equity	40,682	34.3%	37,620	34.0%
Total assets	118,700	100.0%	110,800	100.0%

The proportion of cash and cash equivalent to total assets at the end of the year increased by 1.0 percentage point from the beginning of the year was mainly due to the increase in business scale and the strengthening on debts collection. The debts collection was increased over the corresponding period of last year.

The proportion of trade receivables to total assets at the end of the year increased by 0.2 percentage point from the beginning of the year was mainly due to the stern macroeconomic situation which caused part of the Company's segments into fierce competition, leading to the extension of debts collection period.

The proportion of inventories and construction contracts in total assets at the end of the year decreased by 0.4 percentage point from the beginning of the year was mainly due to the continuous integration of supply chain management, the optimization of operation and management, as well as the improvement of inventories turnover.

The proportion of short term interest bearing bank and other borrowings to total assets at the end of the year increased by 2.3 percentage point from the beginning of the year was mainly due to the consolidation of and increase in borrowings from commercial banks by certain newly-acquired subsidiaries of the Company.

The proportion of trade payables to total assets at the end of the year increased by 1.0 percentage point from the beginning of the year was 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 1.8 percentage point from the beginning of the year was mainly due to the decrease in amounts collected from new orders resulting from the gradual completion of orders on hand, the decrease in the investments in power sector and projects delay.

Items in the income statement

(in RMB million)

	2012	2011 (Restated)	Change	Rate (%)
Revenue	76,591	71,461	5,130	7.2%
Other income and gains	1,269	1,074	195	18.2%
Finance costs	196	124	72	58.1%
Share of profits and losses of jointly-controlled entities and associates	611	710	(99)	(13.9%)
Income tax	1,344	772	572	74.1%
Net profit attributable to owners of the parent	2,715	3,183	(468)	(14.7%)

Finance costs increased by 58.1% from 2011 was mainly due to the interests incurred from the consolidated borrowings from the commercial banks of certain newly-acquired subsidiaries of the Company.

Share of profits and losses of jointly-controlled entities and associates decreased by 13.9% from 2011 was mainly due to the decline of the investment revenues of the certain jointly-controlled entities and associates.

Income tax increased by 74.1% from 2011 was mainly due to the taxable profit increase in other businesses for the year, save for the losses incurred in the wind power and heavy machinery businesses.

Items in the statement of cash flows

(in RMB million)

Items	2012	2011 (Restated)	Change
Balances of cash and cash equivalents at beginning of year	15,847	16,100	(253)
Net cash flows from operating activities	6,723	246	6,477
Net cash flows from investing activities	(2,841)	(773)	(2,068)
Net cash flows from financing activities	(3,781)	313	(4,094)
Net increase in cash and cash equivalents	101	(214)	315
Effect of foreign exchange rate changes on cash	(38)	(39)	1
Balances of cash and cash equivalents at the end of the year	15,910	15,847	63

Net cash inflow from operating activities increased by RMB6,477 million from 2011 mainly due to the increase in business scale and the strengthening on trade debts recovery. There was an increase in amount of trade debts recovered for the reporting period over the corresponding period of last year.

Net cash outflow from investment activities increased by RMB2,068 million from 2011 mainly due to the increase in deposit investment of the Company during the reporting period over the corresponding period of last year.

Net cash outflows from financing activities increased by RMB4,094 million from 2011 mainly due to the increase of cash outflow resulting from the decrease of deposits of placed with the finance company with the Group by the associates.

Source of Funding and Indebtedness

As at 31 December 2012, the Group had aggregate bank and other borrowings and bonds of RMB5,448 million (2011: RMB3,872 million), representing an increase of RMB1,576 million from the beginning of the year. Borrowings and bonds repayable within one year amounted to RMB3,419 million, representing an increase of RMB2,730 million compared with that of the beginning of the year. Borrowings and bonds repayable after one year amounted to RMB2,029 million, representing a decrease of RMB154 million compared with that of the beginning of the year.

As at 31 December 2012, the bank and other borrowings of the Group, except for unsecured bank loans at HKD0 (2011: HKD52,000,000) in aggregate, which was equivalent to RMB0 (2011: RMB42,156,000); USD456,963,000(2011:USD236,254,000) in aggregate, which were equivalent to RMB 2,872,239,000 (2011:RMB 1,488,614,000) ;JPY80,000,000 (2011: JPY80,000,000) in aggregate, which were equivalent to RMB5,844,000 (2011: RMB6,488,000), all other unsecured bank borrowings are denominated in Renminbi.

As at 31 December 2012, 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 11.8%, an increase from 9.3% at the beginning of the year (calculations based on restated figures of 2011).

Pledge of Assets

As at 31 December 2012, bank deposits of RMB624 million (2011: RMB670 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 RMB234,000,000 as at 31 December 2012 (2011: RMB914,000).

As at 31 December 2012, accounts receivable of a net carrying amount of approximately RMB584 million (31 December 2011: RMB314 million) was factored with recourse to obtain certain bank facilities of RMB490 million (31 December 2011: RMB250 million). In addition, lease receivables with a net carrying amount of approximately RMB40 million (31 December 2011: nil) were factored with recourse to obtain certain bank facilities of RMB36 million (31 December 2011: nil).

Contingent Liabilities

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

Capital Commitments

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

The Board's discussion and analysis on the future prospect of the Company

Industry competition landscape and the development trend

Under the menace of "Financial Cliff" in the USA, the intermittent outbreaks of the European Debt crisis, the recession in Japan, the slowdown of emerging economies and the emerge of international trade protectionism, the global economy still remains in the adjustment period in the wake of 2008 financial crisis with a fragile economic recovery. In the meantime, the third industrial revolution is under its gestation phase. The developed countries are accelerating the trend of "reindustrialization" and "return of manufacturing industry", snapping up the advantages of the new round of scientific industrial revolution. Boasting their resources and self-innovation, the developing countries speed up to deal with the international industry and capital transfer. All these will bring up new opportunities of exploring overseas market for the Company.

On the domestic side, the manufacturing industry in the PRC remains resilient during the 12th Five Year Plan period. The State further expedites the reform of energy production and utilization so as to set up a safe, stable, economic, clean and modern energy industrial system; it accelerates new energy development, promotes the traditional energy used in a clean and efficient way and ensure efficient nuclear power development in a safe fashion. The State also enhances the constructions of power grid and develops smart grids. Our national energy equipments, in particular for the thermal power equipments , demonstrate over all competitive advantages in terms of price, quality, technology and project execution in the international arena,. This enables us actively involving the international markets development. Besides, with the progress of urbanization, there will be a greater and further demand on transportation, housing and energy and other infrastructures, bringing along our industrial equipment segment with market opportunities and room for development.

It is expected that the demand on energy equipments for the domestic market for the following years are as follows: The annualized average addition of thermal power capacity will remain around 35,000MW to 45,000MW; the market scale of the gas turbine industry will reach 6,000MW annually; as at 2015, wind power grid integration installed capacity will reach 100,000MW; the nuclear power capacity will reach 40,000MW; Being a large scale energy equipment manufacturing group, the Company will strive to hone our product competitiveness and increase our market shares.

Development strategies of the Company

Looking forward, the Company will usher in the self-innovation as its commitment with innovation intergration as foundation through promoting the technological advancement, creating innovative business model, raising economic effectiveness and implementing a sound human resources strategy, will provide more efficient and more environmental friendly energy and industrial equipments.

Promoting technological advancement

We will expedite to build up technological innovation system, formulate technological strategy and grasp the direction of development. Moreover, technological knowledge is to be acquired and centralized by us and a R&D team is to be established. The Central Research Institute will remain as the centerpiece of the Group, which will improve and reconstruct the innovative R&D-oriented system of the Group, to fully demonstrate the effect of R&D oriented system benefiting Group's R&D innovative activities. All these can underpin the Group for its greater development. The Group will accelerate to nurture and develope the strategic emerging industries and strive to advance the commercialization of its high and new technological industry, so that Shanghai Electric can maintain a sustainable and healthy development. The Group also changes its approaches – from acquiring technology externally shifting to secondary innovation going along with independent development; and from project-based development shifting to team-based development. The Group will keep on its efforts on technologies and attach emphasis on the results from technological output so as to boost its output efficiency. Significance will also be placed on a batch of prospective projects which ties to the strategic development of the Group.

Creating innovative business model

The Group will endeavor to develop overseas engineering and tap the new markets by developing repair and maintenance, technology and financial service industry to extend its industry chain. Further strengthening strategic alliance cooperation can enable us to share both domestic and international market. The Group will subcontract more orders from the aspects of thermal power equipments and gas turbine etc due to the fact of international production capacity shifting and gain a share of international market. It also steps forward for the joint venture in the areas of large scale wind turbines, power station engineering service and energy-saving services, developing new technological competitive advantages in view of raising market share. The Group will also make efforts in acquisition and merger of companies for the reward of their technologies and markets. The Group will examine the new model of cooperation with small-to-medium size enterprise in view of nurturing new business development.

Raising economic effectiveness

The Group will adopt lean management, focus on customer satisfaction by meeting their product quality and service quality requirements, gradually reduce the cost, improve the delivery on time rate so as to create greater values for customers. and further enhance the on-site management standard as well as the supply chain and customer management level. The Group will also enhance its operation efficiency and minimize the related risk by strengthening the accounts receivable credit management, process management and aging structure management, and speeding up the accounts receivable and inventory turnover rates. The Group will improve the profitability and budget management through cost-cutting by better management and the technology advancement to absorb the cost increased by various factors and improve the gross margin accordingly. We will also strengthen the financial management and improve the financial control ability, strengthen top-level organization structure design and modular design for budget as well as the risk control ability. The Group will leverage on the functionality of its financial platform so as to strengthen its financial services and improve its efficiency in fund utilization.

Implementation of human resource strategy

Human resource is the most important capital of the Group. In the future, the Company will speed up the recruitment and cultivation of personnel in serious shortage. The Group will also coordinate and implement various team establishment and breed management teams, explore new work mechanism and incentive mechanism for innovation personnel, improve human resources, work management mechanism and enhance human capital resources budget management.

Operational Plan

The Group will continue to adhere to strategic development approach, follow-through the perspectives on scientific development, to drive transformation and development by innovation, to enhance the capability and effectiveness. The Group will also continue its sustainable and healthy development, and enhance the competitiveness of core products. In 2013, the Group's target of operations will be an increase in turnover and net profit compared to those of 2012 with the growth rate for net profit higher than that of turnover. The Company will carry out the followings:

Continue to strengthen the management and increase the economic effectiveness

Quality improvement should be extended to the workplace, strictly control the work flow, fully monitor the quality throughout the entire process from procurement to after-sales services. The Group will also continue to improve the centralised procurement as well as the tendering and bid evaluation management system, establish an evaluation and removal mechanism for suppliers, and improve the two-level supplier management system. Furthermore, the Group will strengthen the cash management system focusing on trade receivables collection, enhance the customer creditworthiness management and set up the tracking mechanism for trade receivables collection.

Speed up the cultivation of new industry and maintain the sustainability

One on hand, the Group will enhance the scale and efficiency of new industry which has entered to the production stage. On the other hand, the Group will proactively expand into new area, and create more favourble conditions for the development of new industry through focusing on human resources, and providing favourable policies and funding to new industry.

Enhance the technology innovation and increase the level of scientific research

The Group will continue to improve the new technology innovation system, proactively implement the significant scientific research projects such as gas turbine, high temperature gas cooled reactor, the development of 1.9 metres long turbine blades, double reheat steam turbine, CAP1400 nuclear power unit, domesticalisation of nuclear reactor coolant pump and 8 meters per second speed elevators. At the same time, the Group will enhance IT support of information through the promotion of CAD model building, 3D-CAE and imitation technology, and seize the commanding heights of scientific and technological development.

Possible Risks

Market risk

Equipment manufacturing industry can be greatly affected by the public investment in fixed assets and it is closely correlated to national economic growth. If in future the global economy went on a recession trend, China's economic growth pace remained slow, and growth rate of public fixed assets investment came down, the market demand for equipment manufacturing industry may decrease, which may have a negative impact on the development of the Company.

The Company will carry on to examine the possible influence exerted by the global and domestic macroeconomic trend on the Company and adopt various responsive measures in a timely manner. Meanwhile, the Company will enhance its management to raise the corporate management efficiency which enables it to cope with challenges brought to the Company by changes taken place in the domestic and overseas markets.

Overseas business risk

At present, overseas businesses have been one of the major sources of revenue streams. With the expansion of its overseas presence, the Company is exposed to possible risk resulted from changes in political or economic pattern of certain overseas countries in which the Company is doing businesses. There is also a rising risk of commercial disputes between the Company and its foreign customers and business partners.

For this, the Company will consider in depth the policy and the business environment of the overseas markets and will establish overseas subsidiaries or branches to minimize the operating risk of the overseas markets. The Company will take out relevant insurance policies to cover related risks of its businesses and employees to maximize the protection over the interests of the Company. Meanwhile, the Company will implement its "domesticalization strategy" in the overseas market, seeking for a long term cooperative relationship with the local customers so as to build up a good market reputation in the overseas market.

Exchange risk

The Company's businesses in plant equipments, plant engineering and power transmission and distribution engineering involve export business and their contract amounts are large and usually denominated in US dollars. During its production, the Company needs to purchase imported equipments and components as well. If the fluctuations of exchange rate between RMB and USD tend to expand, the Company may be exposed to an increasing exchange risk.

For this, the Company will utilize more hedging instruments and enlarge its RMB Settlement in Cross-border Trade, limit exchange risk and restrain its cost of overseas projects.

Capital utilization plan

In view of the ever changing macroeconomic situation, we will continue to apply scientific and prudent investment philosophy to maintain the investment scale at an appropriate level. In December 2012, China Securities Regulatory Commission approved in writing the Company's public offer of corporate bonds not exceeding RMB4 billion. In March 2013, the Company completed the public offer of the first tranche of corporate bonds amounting to RMB 2 billion and the net proceeds were utilized as working capital of the Company, satisfying the Company's funding requirements for daily operations. (Please refer to "Events After The Reporting Period" on page 43 for details about the issuance of corporate bonds)

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 in A share market (the "Placement"). The aggregate proceeds raised from the Placement amounted to approximately RMB2,221 million, net proceeds after deducting sponsor underwriting fees and other share issue expenses amounted to approximately RMB2,177 million. During the year, those proceeds were used in accordance with the committed amounts for 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	Actual amount of proceeds being invested
Production capacity expansion and technology enhancement project of nuclear power plant reactor vessel internals and control rods drive mechanisms of 1,000MW units (Phase II)	3.70	2.65
Technology enhancement project of 450 tonnes electroslag furnace	1.10	0.89
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	2.76
Technology enhancement project of heavy nuclear power condenser assembly plant	0.60	0.41
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	2.21
Introduction of and training for the use of the design and analysis software of wind power equipment	1.10	1.10
Research and production project of wind power equipment of 2MW and 3.6MW	2.79	2.28
Development project of research centre of wind power technology	0.50	0.27
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	1.44
Supplement to working capital	4.32	5.99
Total	**21.77**	**20.00**

On 8 December 2011, the twelfth meeting of the third session Board meeting of the Company was convened. The resolution of "Proposal of transferring certain investment projects funded by the proceeds from the Private Offering of the Company" was reviewed and passed in the meeting. 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 be transferred to the new wind power joint venture companies. The above resolution was passed in the general meeting of the Company on 29 May 2012.

On 8 December 2011, the twelfth meeting of the third session Board meeting of the Company was convened. The resolution of "Proposal of Permanent Allocation of the Surplus of the Proceeds to the Working Capital of the Company" was reviewed and passed in the meeting. As of 30 November 2011, the wind power investment projects funded by the proceeds from the private offering have all been completed. Those projects have used approximately RMB563 million from the proceeds, payable but not yet paid proceeds amounted to approximately RMB23 million, and surplus proceeds amounted to approximately RMB167 million. In order to reduce the financial costs and make efficient use of the proceeds, it was resolved that the approximately RMB167 million surplus of the proceeds for the wind power investment projects be permanently allocated to the working capital of the Company. The above resolution was considered and passed in the general meeting of the Company on 29 May 2012. As of 31 December 2012, the abovementioned surplus of proceeds has been allocated and transferred to working capital of the Company.

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

For details please refer to the note to the audited financial statements "2.2 Changes in Accounting Policies and Disclosures".

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

As audited by Ernst & Young Hua Ming, LLP the net profit of the Company set out in the financial statements prepared in accordance with the PRC GAAP amounted to RMB2,676,995,000 in 2012, and the opening retained earnings amounted to RMB3,894,234,000. After deducting 2011 dividends of RMB979,725,000 and transferring to surplus reserve of RMB267,700,000, profit available for distribution amounted to RMB5,323,804,000. As audited by Ernst & Young Hua Ming, LLP the Company's net profit attributable to owners of the parent based on audited financial statements prepared in accordance with the PRC GAAP amounted to RMB2,720,707,000 in 2012, and the Company's net profit attributable to owners of the parent based on audited financial statements prepared in accordance with Hong Kong Financial Reporting Standards amounted to RMB2,714,876,000 in 2012.

Proposed profit appropriation for 2012: Cash dividend of RMB0.0637 (tax inclusive) per share. Based on the total 12,823,626,660 shares of the Company, a total of RMB816,865,000 will be paid out as dividends, accounting for approximately 30% of the net profit attributable to owners of the parent of RMB2,720,707,000 based on audited financial statements prepared in accordance with PRC GAAP, and approximately 30.1% of the net profit attributable to owners of the parent of RMB2,714,876,000 based on audited financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

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 2012 to non-resident enterprise shareholders as appeared 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

In order to determine the list of shareholders who have the right to attend and vote at the forthcoming Annual General Meeting and are entitled to the proposed final dividend, the register of members will be closed. The Company will announce the closure time in a timely manner.

Events After The Reporting Period

(1) The Company was approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2012]1703) to issue corporate bonds with an aggregate nominal value of up to RMB 4 billion by public offer. The corporate bonds will be issued in tranches, where the nominal value of the first tranche shall not be less than 50% of the total nominal value, and the issuance of the remaining tranches of bonds shall be completed within 24 months after the approved date of issue by CSRC. On 27 February 2013, the Company issued 20,000,000 2012 Corporate Bonds (First Tranche) (the "Bonds") of Shanghai Electric Group Company Limited of RMB 100 each, with an offering size of RMB 2 billion and at an issue price of RMB 100 each. The issuance of the Bonds has been completed on 1 March 2013. The Bonds are divided into two classes: (i) three-year bonds with an offering size of RMB0.4 billion and coupon rate of 4.50%; and (ii) five-year bonds with an offering size of RMB1.6 billion and coupon rate of 4.90%.

(2) Details of the final 2012 dividend proposed after the reporting period are contained in note 13 to the financial statements..

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.

Pre-emptive Right Arrangement

Under the requirements of PRC laws and the Articles of Association, the Company's shareholders have no pre-emptive right.

Significant Events

Equity interests in other listed companies held by the Company

Unit: RMB

Stock code	Stock abbreviation	Initial investment cost	Percentage of Shareholding in the relevant company (%)	Carrying amount as at the end of the period	Gain or loss during the reporting period	Change of interests of owners during the reporting period	Category for accounting purpose	Source of shares
600642	Shenergy	2,800,000	0.06	11,934,000	0	(344,250)	Financial assets available for sale	Purchase
601328	BOCOM	9,122,809	0.01	29,894,128	0	2,087,748	Financial assets available for sale	Purchase
600000	SPDB	767,760	0.02	31,992,000	0	3,919,988	Financial assets available for sale	Purchase
600610	SST China Textile Machinery Co., Ltd.	760,000	0.10	4,567,992	0	20,592	Financial assets available for sale	Purchase
600643	AJC	70,000	0.003	222,310	0	42,892	Financial assets available for sale	Purchase
600082	HiTech Develop	270,000	0.05	1,628,640	0	445,770	Financial assets available for sale	Purchase
600618	SCAC	1,240,008	0.03	2,757,832	0	(99,099)	Financial assets available for sale	Purchase
600633	Zhejiang Daily Media	7,471,992	1.44	29,581,200	0	(1,511,928)	Financial assets available for sale	Purchase
000501	Wu Han Department Store Group Co., Ltd.	353,609	0.03	1,715,823	0	(419,631)	Financial assets available for sale	Purchase
600665	Tande Co., Ltd.	1,399,200	0.09	3,326,400	0	737,550	Financial assets available for sale	Purchase
600845	Baosight	4,912,000	0.51	24,412,050	0	(818,773)	Financial assets available for sale	Purchase
600027	HDPI	374,400,000	1.77	472,800,000	0	73,800,000	Financial assets available for sale	Purchase
Total		403,567,378		614,832,375	0	77,860,859		

Connected transaction and Continuing Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the details of the continuing connected transactions between Shanghai Electric Group Company Limited ("the Company") and its subsidiaries (the "Group") and the connected persons during the year ended 31 December 2012 are set out as follows:

Connected transaction

The Board of the Company agrees that on 8 February 2012, Shanghai Mechanical & Electrical Industry Co., Ltd. ("SME") entered into the Equity Transfer Agreement with Shanghai Electric (Group) Corporation ("SE Corporation"), pursuant to which, SEC has agreed to sell, and SME has agreed to purchase, 100% equity interest in Goss International Corporation ("Goss International") for a total cash consideration of RMB571,060,000. The transaction price is based on the assessed value of Goss International's total shareholders' equity of 30 September 2011. During the reporting period, the transaction has completed.

The Board of the Company agrees that on 27 July 2012, the Company entered into the Shanghai Electric Leasing Co., Ltd. ("SEL") Equity Transfer Agreement with SE Corporation, pursuant to which, SE Corporation has agreed to sell, and the Company has agreed to purchase, 100% equity interest in SEL for a cash consideration of RMB551,810,000. The transaction price is based on the assessed value of SEL's total shareholders' equity of 31 March 2012. During the reporting period, the transaction has completed.

The Board of the company agrees that on 27 July 2012, the Company entered into the Shanghai Electric Insurance Company Brokerage Co., Ltd. ("SEICB") Equity Transfer Agreement with SE Corporation, pursuant to which, SE Corporation has agreed to sell, and the Company has agreed to purchase, 100% equity interest in SEICB for a cash consideration of RMB12,340,000. The transaction price is based on the assessed value of SEICB's total shareholders' equity of 31 March 2012. During the reporting period, the transaction has completed.

Continuing Connected Transactions

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 two years ending 31 December 2013 are estimated to be RMB1,100 million and RMB1,300 million, respectively.

The directors of the Company believe that 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 2012 is RMB 657 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 two years ending 31 December 2013 are estimated to be RMB1,500 million and RMB1,600 million, respectively.

The Company acquired 100% equity interest in SEL from SE Corporation, which was approved by the Independent Shareholders at the extraordinary general meeting on 28 September 2012. SEL became a wholly-owned subsidiary of the Company and will continue to purchase equipment from the Parent Group for the purpose of financial leasing. With the new continuing connected transaction, the estimated annual caps for the transactions contemplated under the framework purchase agreement for the year ending 31 December 2012 and 2013 will be increased to RMB1,700 million and RMB2,300 million, respectively. On 27 July 2012, the Board approved the revised annual caps.

The directors of the Company believe that the above framework purchase agreement is entered into in the ordinary course of business of the Group and is on normal commercial terms. The pricing basis shall be:

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

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

The actual purchase from the Parent Group for the year ended 31 December 2012 is RMB1,421 million.

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 two years ending 31 December 2013 are estimated to be RMB4,500 million and RMB5,000 million, respectively. The interest rates offered by Finance Company for the deposits placed by the Parent Group shall be:

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

The actual daily balance of funds (including interests) from the Parent Group for the year ended 31 December 2012 did not exceed the approved annual cap of RMB4,500 million. Besides, the Parent Group received interest income of approximately RMB24 million for the deposits from Finance Company for the year ended 31 December 2012.

(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 two years ending 31 December 2013 are revised to be RMB5,300 million and RMB5,300 million, respectively.

The actual daily balance of outstanding loans (including interests) and purchased discounted bills from the Parent Group in the year ended 31 December 2012 did not exceed the approved annual cap of RMB 5,300 million. Besides, the Parent Group paid interest of RMB198 million, which was derived from loans and discounted bills, to Finance Company for the year ended 31 December 2012.

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 two years ending 31 December 2013 are estimated to be 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 2012 is RMB55 million.

Framework Guarantee Agreement

On 23 March 2012, the Company entered into a framework guarantee agreement with SE Corporation in relation to the guarantee services provided by Finance Company, pursuant to which the approved annual caps, representing issuing letter of guarantee and electronic banker's acceptance, for the year ending 16 February 2013 is estimated to be RMB325 million.

The directors of the Company are of the opinion that the above framework guarantee agreement is entered into arm's length negotiations, on normal commercial terms and conducted in the ordinary and usual course of business. The pricing basis shall be:

- the provisions set out under the Company's administrative measures governing fees for intermediary businesses;
- not be less than the market rate while the rate is on par with the commercial banks' rates.

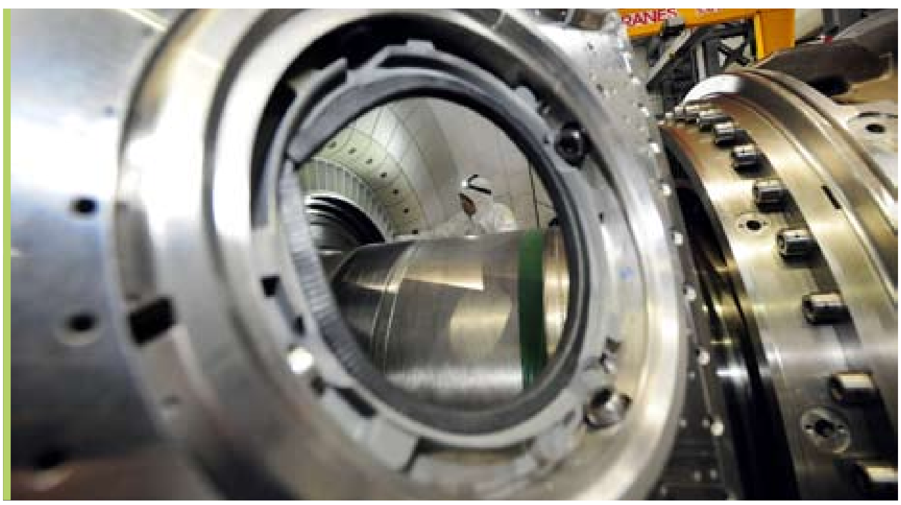
The term of the framework guarantee agreement is one year, renewable at the option of the Company by giving three months' written notice prior to the expiry of the agreement and may be terminated by either party to the agreement by giving three months' written notice.

The actual guarantee services to the Parent Group for year ended 31 December 2012 is nil.

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.

In view of the forthcoming expiry of the existing framework purchase and sales agreement on 23 January 2012, the Company intended to maintain the purchase and sales transactions under the existing framework purchase and sales agreement with Siemens going forward and renew the annual caps for the three years ending 31 December 2014. The renewed annual caps of relevant purchase for the three years



ending 31 December 2014 are estimated to be RMB3,000 million, RMB3,200 million and RMB 4,500 million, respectively; the annual caps of relevant sales for the three years ending 31 December 2014 are estimated to be RMB1,800 million, RMB2,000 million and RMB 2,000 million, respectively.

In October 2011, the Company applied to the Stock Exchange for the Waiver from strict compliance with Rule 14A.35(1) of the Listing Rules, in accordance with which, the Company would be required to enter into a written agreement with Siemens in respect of the Renewal CCT. The Waiver has been conditionally granted by the Stock Exchange on 4 November 2011, subject to and on the Waiver Conditions. On 8 December 2011, the Board approved the waiver of written agreement and the renewed continuing connected transactions. On 29 May 2012, the independent shareholders approved the waiver of written agreement and the renewed continuing connected transactions.

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

The actual purchase from Siemens Group for the year ended 31 December 2012 is RMB1,639 million and the sales to Siemens Group for the year ended 31 December 2012 is RMB356.70 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 3 February 2010 for a term of three years, in relation to the purchase of elevators, related components and services from MESMEE by SMEC.

Pursuant to the agreement, the annual caps of the relevant purchase for the year ended 31 December 2012 are estimated to be RMB1,700 million. 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 2012 was RMB1,695 million.

(ii) Mitsubishi framework sales agreement

SMEC entered into a framework sales agreement with MESMEE on 3 February 2010, in relation to the sales of elevators, related components and rendering services to MESMEE by SMEC.

Pursuant to the agreement, the annual caps of the relevant sales for the year ended 31 December 2012 are estimated to be RMB150 million. 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 2012 was RMB18 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 auditors to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors;
- For transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- Nothing has come to our attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- With respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 3 February 2010, 27 October 2010, 28 April 2011, 12 August 2011, 8 December 2011, 23 March 2012 and 27 July 2012 made by the Company in respect of each of the disclosed continuing connected transactions.

Appointment and removal of auditors

Unit: RMB '000

Removal of accounting firm	No
Name of the PRC auditor	Ernst & Young Hua Ming, LLP
Name of the international auditor	Ernst & Young

Services provided by auditors	**Remuneration**
Audit of the Company for the year	11,680
Statutory audit of subsidiaries	6,559
Special audit and non-audit services	676
Total	**18,915**

	Firm Name	Remuneration
Auditors of Internal control	Ernst & Young Hua Ming, LLP	2,480

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 51 to 184, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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
28 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
REVENUE	5	76,590,989	71,461,341
Cost of sales		(62,602,034)	(58,644,111)
Gross profit		13,988,955	12,817,230
Other income and gains	5	1,268,671	1,073,625
Selling and distribution expenses		(2,439,701)	(1,923,556)
Administrative expenses		(4,517,143)	(4,566,865)
Other expenses		(2,990,520)	(3,068,145)
Finance costs	7	(195,527)	(124,383)
Share of profits and losses of:			
Jointly-controlled entities		3,876	118,204
Associates		607,312	591,462
PROFIT BEFORE TAX	6	5,725,923	4,917,572
Income tax expense	10	(1,344,017)	(772,327)
PROFIT FOR THE YEAR		4,381,906	4,145,245
Attributable to:			
Owners of the parent	11	2,714,876	3,183,138
Non-controlling interests		1,667,030	962,107
		4,381,906	4,145,245
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic and diluted			
- For profit for the year (RMB)		21.17 cents	24.82 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 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
PROFIT FOR THE YEAR		4,381,906	4,145,245
OTHER COMPREHENSIVE INCOME			
Available-for-sale assets:			
Changes in fair value		269,001	(323,069)
Reclassification adjustments for (gains)/losses included in the consolidated income statement			
- (gains)/losses on disposal	5	(61,754)	35
- impairment losses	6	-	85,304
Income tax effect		(46,708)	52,766
		160,539	(184,964)
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	33	18,267	(63,920)
Reclassification adjustments for gains included in the consolidated income statement	33	(115,382)	(30,015)
Income tax effect		24,279	23,484
		(72,836)	(70,451)
Share of other comprehensive income of:			
Jointly-controlled entities		-	202
Associates		(31,275)	-
		(31,275)	202
Exchange differences on translation of foreign operations		(52,307)	11,078
Others		(24,029)	19,550
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(19,908)	(224,585)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,361,998	3,920,660
Attributable to:			
Owners of the parent		2,702,245	2,973,286
Non-controlling interests		1,659,753	947,374
		4,361,998	3,920,660

Consolidated Statement of Financial Position

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	15,226,213	14,157,050
Investment properties	16	145,036	129,368
Prepaid land lease payments	17	1,641,656	1,461,977
Goodwill	18	167,519	12,483
Other intangible assets	19	995,556	830,415
Investments in jointly-controlled entities	21	92,537	319,887
Investments in associates	22	3,603,746	2,872,129
Loans and lease receivables	23	1,318,545	1,048,902
Other investments	24	1,417,835	680,576
Derivative financial instruments	33	4,460	74,346
Other non-current assets		395,297	232,277
Deferred tax assets	25	1,874,894	1,567,517
Total non-current assets		26,883,294	23,386,927
CURRENT ASSETS			
Inventories	26	21,933,836	21,954,003
Construction contracts	27	1,476,431	290,134
Trade receivables	28	20,605,697	19,030,147
Loans and lease receivables	23	2,621,208	1,976,783
Discounted bills receivable	29	881,170	902,144
Bills receivable	30	5,090,174	4,510,797
Prepayments, deposits and other receivables	31	10,665,546	10,572,459
Investments	32	3,105,546	4,141,267
Derivative financial instruments	33	90,105	106,184
Due from the Central Bank	34	2,580,698	2,950,785
Restricted deposits	34	624,122	669,500
Cash and cash equivalents	34	22,141,703	19,624,341
		91,816,236	86,728,544
Assets of a disposal group classified as held for sale	12	-	684,174
Total current assets		91,816,236	87,412,718
CURRENT LIABILITIES			
Trade payables	35	24,031,249	21,300,099
Bills payable	36	2,456,807	2,078,948
Bonds	41	-	1,000,000
Other payables and accruals	37	38,625,985	37,984,696
Derivative financial instruments	33	76,155	2,243

Consolidated Statement of Financial Position (continued)

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Customer deposits	38	1,294,409	2,666,291
Interest-bearing bank and other borrowings	39	3,419,300	688,854
Tax payable		1,278,581	1,154,320
Provisions	40	2,604,205	2,250,556
		73,786,691	69,126,007
Liabilities directly associated with the assets classified as held for sale	12	-	228,428
Total current liabilities		73,786,691	69,354,435
NET CURRENT ASSETS		18,029,545	18,058,283
TOTAL ASSETS LESS CURRENT LIABILITIES		44,912,839	41,445,210
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	39	2,028,585	2,183,393
Provisions	40	48,095	63,453
Government grants		387,942	368,686
Derivative financial instruments	33	117,878	180,215
Other non-current liabilities	42	1,109,884	610,164
Deferred tax liabilities	25	538,197	419,592
Total non-current liabilities		4,230,581	3,825,503
Net assets		40,682,258	37,619,707
EQUITY			
Equity attributable to owners of the parent			
Issued capital	43	12,823,627	12,823,627
Reserves	44(a)	16,866,070	15,725,115
Proposed final dividend	13	816,865	979,725
		30,506,562	29,528,467
Non-controlling interests		10,175,696	8,091,240
Total equity		40,682,258	37,619,707

Director Mr. Xu Jianguo ....

Director Mr. Yu Yingui ....

Consolidated Statement of Changes In Equity

Year ended 31 December 2012

	Notes	Attributable to owners of the parent											
		Issued capital RMB'000	Capital reserve RMB'000 (note 44(a))	Contributed surplus RMB'000 (note 44(a))	Surplus reserves RMB'000 (note 44(a))	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													
As previously reported		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
Business combinations under common control		-	526,355	-	10,315	-	-	23,960	(398,127)	-	162,503	(166,915)	(4,412)
As restated		12,823,627	5,567,394	(2,352,526)	2,817,130	68,837	137,460	35,296	7,232,916	834,818	27,164,952	7,333,101	34,498,053
Profit for the year		-	-	-	-	-	-	-	3,183,138	-	3,183,138	962,107	4,145,245
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		-	-	-	-	-	-	2,849	-	-	2,849	8,229	11,078
Others		-	9,445	-	-	-	-	-	-	-	9,445	10,307	19,752
Total comprehensive income for the year		-	9,445	-	-	(70,451)	(151,695)	2,849	3,183,138	-	2,973,286	947,374	3,920,660
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	579,817	579,817
Capital injection by SEC (a) before combination of SELC (b)		-	300,000	-	-	-	-	-	-	-	300,000	-	300,000
Disposal of subsidiaries	48	-	(233)	-	(13,282)	-	-	-	13,282	-	(233)	(18,373)	(18,606)
Dividend paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	(697,116)	(697,116)
Final 2010 dividend declared		-	-	-	-	-	-	-	-	(834,818)	(834,818)	-	(834,818)
Proposed final 2011 dividend	13	-	-	-	-	-	-	-	(979,725)	979,725	-	-	-
Dividend paid to SEC (a) before combination of SELC (b)		-	-	-	-	-	-	-	(135,673)	-	(135,673)	-	(135,673)
Transfer from retained profits		-	-	-	342,888	-	-	-	(342,888)	-	-	-	-
Others		-	57,019	-	393	-	-	-	3,541	-	60,953	(53,563)	7,390
At 31 December 2011		12,823,627	5,933,625*	(2,352,526)*	3,147,129*	(1,614)*	(14,235)*	38,145*	8,974,591*	979,725	29,528,467	8,091,240	37,619,707

(a) SEC is the abbreviation of Shanghai Electric (Group) Corporation.

(b) SELC is the abbreviation of Shanghai Electric Leasing Co., Ltd.

Consolidated Statement of Changes In Equity (continued)

Year ended 31 December 2012

	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	Special 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
		Attributable to owners of the parent												
At 1 January 2012														
As previously reported		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
Business combinations under common control		-	843,598	-	16,380	-	-	-	31,340	(620,043)	-	271,275	(307,346)	(36,071)
As restated		12,823,627	5,933,625*	(2,352,526)*	3,147,129*	(1,614)*	(14,235) *	-*	38,145*	8,974,591*	979,725	29,528,467	8,091,240	37,619,707
Profit for the year		-	-	-	-	-	-	-	-	2,714,876	-	2,714,876	1,667,030	4,381,906
Other comprehensive income for the year:														
Changes in fair value of available-for-sale investments, net of tax		-	-	-	-	-	141,312	-	-	-	-	141,312	19,227	160,539
Cash flow hedges, net of tax		-	-	-	-	(72,836)	-	-	-	-	-	(72,836)	-	(72,836)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(37,684)	-	-	(37,684)	(14,623)	(52,307)
Others		-	(43,423)	-	-	-	-	-	-	-	-	(43,423)	(11,881)	(55,304)
Total comprehensive income for the year		-	(43,423)	-	-	(72,836)	141,312	-	(37,684)	2,714,876	-	2,702,245	1,659,753	4,361,998
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	852,440	852,440
Addition of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	671,827	671,827
Business combinations under common control		-	(865,391)	-	-	-	-	-	-	-	-	(865,391)	(301,063)	(1,166,454)
Deemed disposal of subsidiaries	47	-	(1,391)	-	(7,081)	-	-	-	-	7,081	-	(1,391)	(1,550)	(2,941)
Disposal of a subsidiary	48	-	(715)	-	-	-	-	-	-	-	-	(715)	(798)	(1,513)
Dividend paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	(661,480)	(661,480)
Final 2011 dividend declared	13	-	-	-	-	-	-	-	-	-	(979,725)	(979,725)	-	(979,725)
Proposed final 2012 dividend	13	-	-	-	-	-	-	-	-	(816,865)	816,865	-	-	-
Dividend paid to SEC before combinations of SELC and SEIBC (c)		-	-	-	-	-	-	-	-	(9,000)	-	(9,000)	-	(9,000)
Transfer from retained profits		-	-	-	575,898	-	-	25,925	-	(601,823)	-	-	-	-
Others		-	134,336	-	40	-	-	-	-	(2,304)	-	132,072	(134,673)	(2,601)
At 31 December 2012		12,823,627	5,157,041*	(2,352,526)*	3,715,986*	(74,450)*	127,077*	25,925*	461*	10,266,556*	816,865	30,506,562	10,175,696	40,682,258

(c) SEIBC is the abbreviation of Shanghai Electric Insurance Brokers Co., Ltd.

* These reserve accounts constitute the consolidated reserves of RMB16,866,070,000(2011: RMB15,725,115,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,725,923**	4,917,572
Adjustments for:			
Finance Company*:			
Interest income from banks and other financial institutions	5	**(240,164)**	(267,542)
Interest income on loans receivable and discounted bills receivable	5	**(191,709)**	(129,983)
Finance lease income	5	**(256,316)**	(231,114)
Interest income on non-restricted time deposits with original maturity of over three months when acquired		**(161,005)**	(108,209)
Interest income on debt investments	5	**(8,500)**	(7,255)
Dividend income from equity investments and investment funds	5	**(4,085)**	(139,509)
Gain on disposal of items of property, plant and equipment, net	5, 6	**(25,841)**	(24,681)
Gain on disposal of other intangible assets, net	5, 6	**(3,267)**	(141,774)
Gain on disposal of land use rights	5	**(15,231)**	-
Gain on deemed disposal of subsidiaries	5	**(157,881)**	-
(Gain)/losses on disposal of subsidiaries	5	**(1,617)**	15,180
Gain on disposal of associates	5	**(44,752)**	(17,951)
Investments at fair value through profit or loss:			
Unrealised fair value losses, net	5	**231**	8,524
Realised fair value gains, net	5	**(5,797)**	(5,713)
Derivative financial instruments - transactions not qualifying as hedges:			
Unrealised fair value (gains)/losses, net	5	**(1,569)**	2,244
Realised fair value gains, net	5	**-**	(45,049)
Realised (gains) /losses on available-for-sale investments (transferred from equity)	5	**(61,754)**	35
Gain on disposal of unquoted equity investments stated at cost	5	**-**	(59,955)
Other gains	5	**(5,992)**	(8)
Finance Company*:			
Interest expense due to banks and other financial institutions	6	**19,590**	7,076
Interest expense on customer deposits	6	**26,121**	31,240
Interest expense on bonds	6	**44,500**	39,300
Depreciation of property, plant and equipment	6	**1,337,719**	1,273,320
Depreciation of investment properties	6	**5,613**	6,034
Recognition of prepaid land lease payments	6	**45,003**	33,683
Amortisation of intangible assets	6	**119,038**	108,855
Early retirement benefits and staff severance costs	6	**4,198**	84,564
Write-down of inventories to net realisable value	6	**441,452**	467,818

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

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Share of profits and losses of jointly-controlled entities		(3,876)	(118,204)
Share of profits and losses of associates		(607,312)	(591,462)
Impairment of trade receivables and other receivables	6	410,000	955,637
Addition/(reversal) of impairment of loans receivable	6	2,261	(6,105)
Impairment of finance lease receivables	6	66,428	27,023
(Reversal)/addition of impairment of discounted bills receivable	6	(69)	8,294
Impairment of available-for-sale investments (transferred from equity)	6	-	85,304
Impairment of items of property, plant and equipment	6	46,530	10,243
Impairment of goodwill	6	-	137,139
Impairment of other intangible assets	6	1,659	4,530
Provision for product warranty	6	378,188	333,734
Provision for onerous contracts	6	1,097,734	805,265
Addition / (reversal) of provision for late delivery	6	2,000	(24,000)
Other provisions	6	9,037	47,503
Finance costs	7	195,527	124,383
Gain on bargain purchases	5	(3,196)	-
Exchange losses, net	5	37,780	39,486
		8,216,599	7,655,472
Decrease/(increase) in inventories		1,530,243	(1,864,306)
(Increase)/decrease in construction contracts		(1,186,297)	166,200
Increase in trade receivables and other receivables		(1,730,579)	(7,441,816)
Decrease /(increase) in other non-current assets		10,393	(80,996)
Increase in trade payables, bills payable, other payables and accruals		2,557,645	3,595,741
Utilisation of product warranty provision and other provisions		(1,152,866)	(1,018,437)
Cash generated from operations		8,245,138	1,011,858
Taxes paid		(1,522,475)	(765,990)
Net cash flows from operating activities		6,722,663	245,868

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		591,745	514,434
Finance lease income	5	256,316	231,114
Dividends received from jointly-controlled entities		2,144	25,612
Dividends received from associates		774,146	683,026
Dividends received from investments		4,085	139,621
Purchases of items of property, plant and equipment		(2,074,729)	(2,142,774)
Realised fair value gains on investments at fair value through profit or loss	5	5,797	5,713
Realised fair value gains on derivative financial instruments	5	-	45,049
Prepaid land lease payments	17	(3,907)	(21,090)
Proceeds from disposal of items of property, plant and equipment		166,193	200,590
Acquisition of subsidiaries	46	(365,449)	-
Deemed disposal of subsidiaries	47	(15,599)	-
Disposal of subsidiaries	48	4,248	163,832
Capital injection in associates		(250,496)	(33,373)
Proceeds from disposal of associates		121,545	27,707
Purchases of non-current other investments		(704,800)	(395,858)
Proceeds from disposal of non-current other investments		852,680	84,802
Purchases of other intangible assets		(229,414)	(206,156)
Proceeds from disposal of other intangible assets		17,005	153,930
Proceeds from disposal of prepaid land lease payments		16,290	-
Acquisition of non-controlling interests		(25,652)	-
Acquisition of other non-current assets		(51,890)	(117,821)
Decrease in restricted deposits		45,378	72,587
Increase in non-restricted time deposits with original maturity of over three months when acquired		(2,441,655)	(219,494)
(Increase)/decrease in loans and lease receivable		(1,025,293)	371,520
Decrease/(increase) in discounted bills receivable		21,043	(828,402)
Decrease/(increase) in an amount due from the Central Bank		370,087	(337,671)
Decrease in current investments		1,099,239	810,604
Net cash flows used in investing activities		(2,840,943)	(772,498)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		773,342	579,817
Capital injection by SEC before combination of SELC		-	300,000
Business combinations under common control	45	(1,135,215)	-
New bank and other loans		2,362,360	766,925
Repayments of bank and other loans		(894,363)	(363,341)
Repayment of bonds		(1,000,000)	-
Dividends paid to non-controlling shareholders		(661,173)	(691,669)
Dividends paid by the Company		(979,725)	(836,617)
Dividend paid to former shareholders before combinations/acquisitions		(506,529)	-
(Decrease)/increase in customer deposits		(1,451,121)	759,762
Interest paid		(288,782)	(201,678)
Net cash flows (used in)/from financing activities		(3,781,206)	313,199
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		100,514	(213,431)
Cash and cash equivalents at beginning of year		15,847,070	16,099,987
Effect of foreign exchange rate changes, net	5	(37,780)	(39,486)
CASH AND CASH EQUIVALENTS AT END OF YEAR		15,909,804	15,847,070
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	34	22,141,703	19,624,341
Less: non-restricted time deposits with original maturity of over three months when acquired		(6,231,899)	(3,790,244)
Cash and cash equivalents attributable to a disposal group	12	-	12,973
Cash and cash equivalents as stated in the statement of cash flows		15,909,804	15,847,070

Statement of Financial Positon

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	889,124	931,257
Investment properties	16	49,388	51,710
Prepaid land lease payments	17	222,436	231,342
Other intangible assets	19	78,969	145,537
Investments in subsidiaries	20	16,054,161	14,910,755
Investments in associates	22	1,836,371	1,717,570
Other investments	24	868,595	398,989
Derivative financial instruments	33	4,460	74,346
Other non-current assets		1,468	2,936
Deferred tax assets	25	512,921	417,412
Total non-current assets		20,517,893	18,881,854
CURRENT ASSETS			
Inventories	26	484,544	246,701
Construction contracts	27	553,902	102,224
Trade receivables	28	11,402,232	10,460,022
Loans receivable	23	1,095,000	1,300,000
Bills receivable	30	961,049	655,166
Prepayments, deposits and other receivables	31	15,448,662	16,990,124
Derivative financial instruments	33	90,105	106,184
Restricted deposits	34	-	27,000
Cash and cash equivalents	34	10,008,385	9,205,690
Total current assets		40,043,879	39,093,111
CURRENT LIABILITIES			
Trade payables	35	19,821,499	15,812,840
Bills payables	36	1,028,868	-
Other payables and accruals	37	14,342,022	18,664,061
Derivative financial instruments	33	75,955	474
Interest-bearing bank and other borrowings	39	1,390,455	1,280,455
Tax payable		348,706	267,632
Provisions	40	183,109	310,729
Total current liabilities		37,190,614	36,336,191
NET CURRENT ASSETS		2,853,265	2,756,920
TOTAL ASSETS LESS CURRENT LIABILITIES		23,371,158	21,638,774

Statement of Financial Positon (continued)

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		23,371,158	21,638,774
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	39	909	1,364
Government grants		8,444	13,909
Derivative financial instruments	33	117,878	180,215
Other non-current liabilities	42	17,355	14,711
Total non-current liabilities		144,586	210,199
Net assets		23,226,572	21,428,575
EQUITY			
Issued capital	43	12,823,627	12,823,627
Reserves	44(b)	9,586,080	7,625,223
Proposed final dividend	13	816,865	979,725
Total equity		23,226,572	21,428,575

Director Mr. Xu Jianguo

Director Mr. Yu Yingui

Notes to Financial Statements

31 December 2012

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 ("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 2012. 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, or, for business combination under common control, the beginning of the earliest financial period presented 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 it 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.

Notes to Financial Statements (continued)

31 December 2012

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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 revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 - *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27(2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011) - *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	*Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC) - Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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. The Group will quantify the effect in conjunction with other phases, when the standard including all phases is issued.

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 judgment 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 addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any significant impact on the currently held investments of the Group.

Notes to Financial Statements (continued)

31 December 2012

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

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 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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 , HKAS 27 (2011) , HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 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.

The HKAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified(for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have on impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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.

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

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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.

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.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

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 combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA to account for the purchase of the equity interests in the acquired subsidiary under common control (the "Acquired Subsidiary"), as if the acquisition had occurred and the Acquired Subsidiary had been combined from the beginning of the earliest financial period presented.

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

The comparative amounts in the consolidated financial statements are restated and presented as if the Acquired Subsidiary had been combined at the beginning of the previous reporting period or when it first came under common control, whichever is shorter.

Transaction costs incurred in relation to business combinations under common control that are accounted for by using merger accounting are recognised as an expense in the year in which they are incurred.

Business combination not under common control

Business combinations not under common control 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 to measure 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 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combination not under common control (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the 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 acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an 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 (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Apart from overseas freehold land, 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:

Freehold land	Not depreciated
Buildings	10 to 50 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 including 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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 40 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as lease receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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.

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 them. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

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 other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in other expenses 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 other income and gains 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.

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.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not 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 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 write-off is later recovered, the recovery is credited to other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

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

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

The 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.

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 in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if 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.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)
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.

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.

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 as 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 as 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 as 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

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 current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to 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.

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.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Income tax

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

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

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

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

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

Revenue recognition

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

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

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" stated below;

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

(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 exactly discounts the estimated future cash receipts over 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.

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.

Notes to Financial Statements (continued)

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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.

Defined benefit plan
The Group operates an unfunded defined benefit plan to grant pensions to all its qualifying employees and retired medical insurance to a number of employees in the United States. Under the plans, participants are entitled to retirement benefits at varying rates of their final salaries on attainment of and at varying retirement ages. The defined benefit liability comprises the present value of the defined benefit obligation less unrecognised past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled at the end of the reporting period. The valuation of defined benefit obligation was carried out by independent actuary using the projected unit credit actuarial valuation method annually. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflow at the rate of high quality debt in periods similar with the related retirement liabilities and is presented by the functional currencies used to settle the benefit. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the year which they arise. Past service costs are recognized immediately if the benefits are already vested immediately following the introduction of, or changes to, a pension plan, depending on whether employees are still in service periods. Under the circumstance, unvested past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 jointly-controlled entities and associates 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 prevailing 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Notes to Financial Statements (continued)

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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:

Estimation uncertainty

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.

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.

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 an 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 2012 was RMB167,519,000 (2011: RMB12,483,000). 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2012 was RMB1,874,894,000 (2011: RMB1,567,517,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2012 was RMB8,334,418,000 (2011: RMB6,749,929,000). 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, the differences will impact the carrying value of the inventories and write-down loss/reversal of write-down in the period in which the estimate has been changed.

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management's judgement and estimates. Where the actual outcome of expectation in future is different from the original estimate, the differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which the 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 2012, no impairment losses has been recognised for available-for-sale assets (2011: RMB85,304,000). 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 2012 was RMB2,652,300,000 (2011: RMB2,314,009,000). 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 the 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.

Notes to Financial Statements (continued)

31 December 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Defined benefit plan

At the end of the reporting period, the Group recognizes the defined benefit liability as the present value of the defined benefit obligation calculated by independent actuary less the fair value of plan assets out of which the obligations are to be settled. The calculation on the present value of defined benefit obligation includes assumptions on beneficial period and discount rate. Material adjustments will be made to the defined benefit obligation, if the future event is not in line with the assumptions.

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.

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 products and services, international trading services, financial lease and consultancy services and insurance brokerage 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.

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 2012	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	6,085,632	27,425,174	22,901,237	18,968,948	1,144,510	65,488	-	76,590,989
Intersegment sales	499,008	8,302,135	670,531	580,214	378,404	379	(10,430,671)	-
Total revenue	6,584,640	35,727,309	23,571,768	19,549,162	1,522,914	65,867	(10,430,671)	76,590,989
Operating profit/ (loss)	(375,115)	3,208,551	1,407,150	929,241	(14,573)	407,255	(252,247)	5,310,262
Finance costs								(195,527)
Share of profits and losses of:								
Jointly-controlled entities	-	-	55	3,821	-	-	-	3,876
Associates	4,934	289,729	312,649	-	-	-	-	607,312
Profit before tax								5,725,923
Income tax expense								(1,344,017)
Profit for the year								4,381,906
Assets and liabilities								
Segment assets	16,162,600	52,828,801	30,766,311	40,255,899	2,770,450	9,142,476	(36,923,290)	115,003,247
Investments in jointly-controlled entities	-	-	13,334	79,203	-	-	-	92,537
Investments in associates	205,750	979,292	2,418,704	-	-	-	-	3,603,746
Total assets								118,699,530
Segment liabilities	8,731,491	35,924,694	17,531,172	35,523,871	1,477,654	9,333,948	(30,505,558)	78,017,272
Total liabilities								78,017,272
Other segment information:								
Capital expenditure*	598,677	998,082	739,016	12,165	30,255	82,947	(3,075)	2,458,067
Depreciation and amortisation	223,242	706,988	467,638	7,189	41,185	61,131	-	1,507,373
Impairment losses recognised in the income statement	-	40,563	7,626	-	-	-	-	48,189
Other non-cash expenses	145,606	439,003	96,707	352,618	4,959	24,143	(142,964)	920,072
Product warranty provision	174,306	102,346	86,484	15,457	(405)	-	-	378,188
Provision for onerous contracts	19,715	940,802	77,844	36,471	22,902	-	-	1,097,734
Late delivery provision	-	-	-	2,000	-	-	-	2,000
Other provisions	9,037	-	-	-	-	-	-	9,037

* 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 2012

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011 (Restated)	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	6,625,947	26,544,176	22,226,111	14,871,131	1,155,249	38,727	-	71,461,341
Intersegment sales	543,615	3,628,079	992,882	484,737	283,806	24,039	(5,957,158)	-
Total revenue	7,169,562	30,172,255	23,218,993	15,355,868	1,439,055	62,766	(5,957,158)	71,461,341
Operating profit/ (loss)	170,214	3,275,134	917,330	(3,512)	(33,162)	280,921	(274,636)	4,332,289
Finance costs								(124,383)
Share of profits and losses of:								
Jointly-controlled entities	-	-	1,827	116,377	-	-	-	118,204
Associates	-	244,030	336,341	11,091	-	-	-	591,462
Profit before tax								4,917,572
Income tax expense								(772,327)
Profit for the year								4,145,245
Assets and liabilities								
Segment assets	17,087,523	49,307,493	25,765,935	39,847,399	2,378,704	8,671,398	(35,450,823)	107,607,629
Investments in jointly-controlled entities	-	-	14,923	304,964	-	-	-	319,887
Investments in associates	-	1,161,813	1,690,826	19,490	-	-	-	2,872,129
Total assets								110,799,645
Segment liabilities	9,108,646	36,636,164	14,808,650	36,084,254	1,254,388	5,491,857	(30,204,021)	73,179,938
Total liabilities								73,179,938
Other segment information:								
Capital expenditure*	480,361	1,081,683	501,708	4,593	23,522	303,039	(58,416)	2,336,490
Depreciation and amortisation	186,610	577,075	566,411	8,194	46,414	37,188	-	1,421,892
Impairment losses recognised in the income statement	-	2,048	149,864	-	-	-	-	151,912
Other non-cash expenses	57,246	792,277	134,852	576,781	10,394	-	(33,579)	1,537,971
Product warranty provision	91,679	26,536	211,576	3,392	551	-	-	333,734
Provision for onerous contracts	27,220	528,498	5,936	212,247	31,364	-	-	805,265
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.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2012 RMB'000	2011 RMB'000 (Restated)
Mainland China (place of domicile)	58,687,001	52,872,322
Other Asian countries/jurisdictions	13,849,356	14,083,852
Others	4,054,632	4,505,167
	76,590,989	71,461,341

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

(b) Non-current assets

	2012 RMB'000	2011 RMB'000 (Restated)
Mainland China (place of domicile)	21,809,496	19,505,292
Other countries/jurisdictions	453,064	510,294
	22,262,560	20,015,586

The above non-current asset information is based on the locations of the 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.

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

	2012 RMB'000	2011 RMB'000 (Restated)
<u>Revenue</u>		
Turnover		
Sale of goods	57,403,577	54,395,660
Construction contracts	14,415,556	12,428,469
Rendering of services	2,980,628	2,864,001
	74,799,761	69,688,130

Notes to Financial Statements (continued)

31 December 2012

5. REVENUE, OTHER INCOME AND GAINS (continued)

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

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
Other revenue			
Sales of raw materials, spare parts andsemi-finished goods		570,507	769,961
Finance lease income		256,316	231,114
Rental income under operating leases		123,281	143,117
Finance Company:			
Interest income from banks and other financial institutions		240,164	267,542
Interest income on loans receivable and discounted bills receivable		191,709	129,983
Others		409,251	231,494
		1,791,228	1,773,211
		76,590,989	71,461,341
Other income			
Interest income on bank balances and time deposits		247,871	163,076
Interest income on debt investments		8,500	7,255
		256,371	170,331
Dividend income from equity investments and investment funds		4,085	139,509
Subsidy income		460,114	406,079
Others		238,011	113,181
		702,210	658,769
Gains			
Gain on disposal of items of property, plant and equipment		42,376	39,535
Gain on disposal of other intangible assets		7,936	141,783
Gain on disposal of land use rights		15,231	-
Gain on deemed disposal of subsidiaries	47	157,881	-
Gain/(losses) on disposal of subsidiaries	48	1,617	(15,180)
Gain on disposal of associates		44,752	17,951
Gain on bargain purchases	46	3,196	-
Gain on disposal of unquoted equity investments stated at cost		-	59,955
Investments at fair value through profit or loss:			
Unrealised fair value losses, net		(231)	(8,524)
Realised fair value gains, net		5,797	5,713
Derivative financial instruments - transactions not qualifying as hedges:			
Unrealised fair value gains/(losses), net		1,569	(2,244)
Realised fair value gains, net		-	45,049
Realised gains/(losses) on available-for-sale investments (transfer from equity)		61,754	(35)
Exchange losses, net		(37,780)	(39,486)
Others		5,992	8
		310,090	244,525
		1,268,671	1,073,625

6. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
Cost of inventories sold		45,541,531	42,973,487
Cost of construction contracts		12,066,951	11,499,633
Cost of services provided		2,915,077	2,472,572
Finance Company:			
Interest expense due to banks and other financial institutions		19,590	7,076
Interest expense on customer deposits		26,121	31,240
Interest expense on bonds		44,500	39,300
		90,211	77,616
Depreciation of property, plant and equipment	15	1,337,719	1,273,320
Depreciation of investment properties	16	5,613	6,034
Recognition of prepaid land lease payments*	17	45,003	33,683
Amortisation of patents and licences*	19	48,408	44,968
Amortisation of concession intangible assets*	19	17,903	17,766
Amortisation of other intangible assets*	19	17,135	9,161
Research and development costs:*			
Amortisation of technology know-how	19	35,592	36,960
Current year expenditure		2,060,922	1,565,547
		2,096,514	1,602,507
Minimum lease payments under operating leases:			
Land and buildings		140,275	125,068
Plant, machinery and motor vehicles		62,678	46,587
Auditors' remuneration		30,248	29,876
Staff costs (including directors' and supervisors' remuneration (note 8)):			
Wages and salaries		5,138,617	4,772,240
Defined contribution pension scheme (note i)		574,661	484,511
Supplementary pension		123,238	106,017
Early retirement benefits and staff severance costs (note ii)	40	4,198	84,564
Medical benefits costs (note iii)		349,637	288,566
Housing fund		283,188	230,395
Cash housing subsidy costs		2,854	5,032
		6,476,393	5,971,325
Write-down of inventories to net realisable value		441,452	467,818
Impairment of trade receivables and other receivables*	28, 31	410,000	955,637
Addition/(reversal) of impairment of loans receivable*	23	2,261	(6,105)
Impairment of lease receivables*	23	66,428	27,023
(Reversal)/addition of impairment of discounted bills receivable*	29	(69)	8,294
Impairment of available-for-sale investments (transferred from equity)*	32	-	85,304
Impairment of items of property, plant and equipment*	15	46,530	10,243
Impairment of goodwill *	18	-	137,139
Impairment of other intangible assets*	19	1,659	4,530

Notes to Financial Statements (continued)

31 December 2012

6. PROFIT BEFORE TAX (continued)

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
Loss on disposal of items of property, plant and equipment*		16,535	14,854
Loss on disposal of other intangible assets*		4,669	9
Product warranty provision:	40		
Additional provision		420,887	333,734
Reversal of unutilised provisions		(42,699)	-
Onerous contract provision:	40		
Additional provision		1,359,323	926,243
Reversal of unutilised provision		(261,589)	(120,978)
Late delivery provision:	40		
Additional provision		2,000	-
Reversal of unutilised provision		-	(24,000)
Other provisions:	40		
Additional provisions		9,037	48,627
Reversal of unutilised provisions		-	(1,124)

* 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% (2011: 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.

(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.

6. PROFIT BEFORE TAX (continued)

(ii) Early retirement benefits and staff severance (continued)

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 RMB59,173,000 as at 31 December 2012 (2011: RMB178,984,000) 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:

	2012 RMB'000	2011 RMB'000 (Restated)
Interest on bank loans and other loans wholly repayable within five years	192,502	109,894
Interest on bank loans and other loans wholly repayable beyond five years	3,025	14,489
Total interest expense	195,527	124,383

Notes to Financial Statements (continued)

31 December 2012

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:

	2012 RMB'000	2011 RMB'000
Directors		
Fees	750	771
Other emoluments:		
Salaries, bonus and allowances received from the Group	1,612	1,862
Pension scheme contributed by the Group	66	67
Other social benefit schemes contributed by the Group	62	64
	2,490	2,764
Supervisors		
Fees	-	-
Other emoluments:		
Salaries, bonus and allowances received from the Group	344	344
Pension scheme contributed by the Group	33	30
Other social benefit schemes contributed by the Group	31	29
	408	403
Total	2,898	3,167

(a) Independent non-executive directors

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

	2012 RMB'000	2011 RMB'000
Mr. Zhu Sendi	250	250
Dr. Cheung Wai Bun	250	250
Dr. Lui Sun Wing (assigned on 15 December 2010)	250	271
	750	771

There were no other emoluments payable to the independent non-executive directors during the year (2011: 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
2012					
Executive directors					
Mr. Huang Dinan	-	906	33	31	970
Mr. Yu Yingui	-	706	33	31	770
	-	1,612	66	62	1,740
Supervisor					
Mr. Xie Tonglun	-	344	33	31	408
	-	1,956	99	93	2,148
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

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 2012

9. FIVE HIGHEST PAID EMPLOYEES

No director (2011: nil) was included in the five highest paid employees during the year. Details of the remuneration for the year of the five (2011: five) highest paid employees who are neither a director nor a supervisor of the company, are as follows:

	2012 RMB'000	2011 RMB'000 (Restated)
Salaries, bonus and allowances received from the Group	9,303	8,694
Pension scheme contributed by the Group	-	30
Other social benefit schemes contributed by the Group	-	29
	9,303	8,753

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

	Number of employees	
	2012	2011 (Restated)
HKD1,000,001 to HKD2,000,000	1	2
HKD2,000,001 to HKD3,000,000	4	3
	5	5

Five highest paid employees in 2011 have been restated due to the business combinations under common control.

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 2012 (2011: 25%) under the income tax rules and regulations of the PRC, except that:

- 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.

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

10. INCOME TAX (continued)

	2012 RMB'000	2011 RMB'000 (Restated)
Group:		
Current - Mainland China		
Charge for the year	**1,611,452**	1,091,885
Overprovision in prior years	**(14,481)**	(76,924)
Current - Elsewhere		
Charge for the year	**7,077**	36,342
Overprovision in prior years	**(86)**	-
Deferred (note 25)	**(259,945)**	(278,976)
Total tax charge for the year	**1,344,017**	772,327

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:

	2012					
	Mainland China RMB'000	%	Elsewhere RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	5,866,151		(140,228)		5,725,923	
Tax at the statutory tax rate	1,466,538	25.0	(48,738)	34.8	1,417,800	24.8
Lower tax rate for specific districts or concessions	(392,656)	(6.7)	-	-	(392,656)	(6.9)
Effect of change in tax rate on the opening balance of deferred tax*	(112)	(0.0)	-	-	(112)	(0.0)
Adjustments in respect of current tax of previous periods	(14,481)	(0.3)	(86)	0.1	(14,567)	(0.3)
Profits and losses attributable to jointly-controlled entities and associates	(150,506)	(2.6)	-	-	(150,506)	(2.6)
Income not subject to tax	(6,904)	(0.1)	(4,359)	3.1	(11,263)	(0.2)
Expenses not deductible for tax	40,285	0.7	92,338	(65.8)	132,623	2.3
Tax incentives on eligible expenditures	(20,206)	(0.3)	-	-	(20,206)	(0.3)
Tax losses utilised from previous periods	(27,365)	(0.5)	(135,984)	97.0	(163,349)	(2.9)
Tax losses not recognised	278,542	4.7	43,257	(30.9)	321,799	5.6
Deductible temporary differences not recognised	56,385	1.0	39,793	(28.4)	96,178	1.7
Taxable temporary differences not recognised#	(36,586)	(0.6)	-	-	(36,586)	(0.6)
Tax for intra-group equity transactions	-	-	143,145	(102.1)	143,145	2.5
Others	-	-	21,717	(15.5)	21,717	0.4
Tax charge at the Group's effective rate	1,192,934	20.3	151,083	(107.7)	1,344,017	23.5

Notes to Financial Statements (continued)

31 December 2012

10. INCOME TAX (continued)

	2011(Restated)					
	Mainland China RMB'000	%	Elsewhere RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	4,968,897		(51,325)		4,917,572	
Tax at the statutory tax rate	1,230,367	24.8	(23,857)	46.5	1,206,510	24.5
Lower tax rate for specific districts or concessions	(295,728)	(6.1)	-	-	(295,728)	(6.0)
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)	(1.6)
Profits and losses attributable to jointly-controlled entities and associates	(177,096)	(3.6)	-	-	(177,096)	(3.6)
Income not subject to tax	(69,621)	(1.4)	(22,365)	43.6	(91,986)	(1.9)
Expenses not deductible for tax	34,960	0.7	37,658	(73.5)	72,618	1.5
Tax incentives on eligible expenditures	(11,218)	(0.2)	-	-	(11,218)	(0.2)
Tax losses utilised from previous periods	(41,418)	(0.8)	(5,741)	11.2	(47,159)	(0.9)
Tax losses not recognised	52,319	1.1	51,863	(101.0)	104,182	2.1
Deductible temporary differences not recognised	79,979	1.6	10,479	(20.4)	90,458	1.8
Others	-	-	(1,303)	2.5	(1,303)	(0.0)
Tax charge at the Group's effective rate	725,593	14.6	46,734	(91.1)	772,327	15.7

* The effect of change in tax rate on the opening balances of deferred tax for the years ended 31 December 2012 and 2011 is due to the preferential/transitional tax rates granted to certain subsidiaries during those years.

The taxable temporary differences arose from the gain on deemed disposal of Shanghai Jintai Engineering Machinery Co., Ltd. ("Shanghai Jintai") with the capital injection from a third party. The Group has an intention to hold the remaining interests in a long term, thus no deferred tax liability has been recognised.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB 2,780,384,000 (2011: RMB1,925,381,000) 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 2012, the Group has no disposal group classified as held for sale.

As of 31 December 2011, Shanghai Jintai and Shanghai Refrigerating Machine Works ("Shanghai Refrigerating Machine") were classified as disposal group held for sale. With the capital injection from the new shareholder, Shanghai Jintai was treated as deemed disposal in the year 2012. The Group disposed of Shanghai Refrigerating Machine during the year 2012. More details are given in notes 47 and 48, respectively.

12. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (continued)

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:

	Notes	2011 RMB'000 (Restated)
Assets		
Property, plant and equipment	15	146,114
Prepaid land lease payments	17	96,464
Other intangible assets	19	26
Deferred tax assets	25	9,194
Inventories		335,698
Trade receivables		33,572
Bills receivable		12,184
Prepayments, deposits and other receivables		37,949
Cash and cash equivalents		12,973
Assets of the disposal group classified as held for sale		684,174
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		455,746

13. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Proposed final 2012 – RMB6.37 cents per ordinary share (2011: RMB7.64 cents)	816,865	979,725

On 29 May 2012, the Company's 2011 annual general meeting approved the proposed final 2011 dividend of an aggregate amount of RMB979,725,000, based on total of 12,823,626,660 shares and a cash dividend of RMB7.64 cents per share (tax inclusive). The dividend was distributed on 27 July 2012.

Notes to Financial Statements (continued)

31 December 2012

13. DIVIDENDS (continued)

On 28 March 2013, the Board of Directors of the Company resolved to recommend to the shareholders of the Company a final dividend of RMB6.37 cents per share (tax inclusive), totalling RMB816,865,000 for the year ended 31 December 2012.

The proposed final dividend for the year ended 31 December 2012 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 RMB816,865,000 for the year ended 31 December 2012 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 (2011: 12,823,626,660) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic earnings per share is based on:

	2012 RMB'000	2011 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	2,714,876	3,183,138

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	12,823,626,660	12,823,626,660

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and 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
2012						
At cost:						
At 1 January 2012						
As previously reported	6,991,258	11,449,794	471,949	788,044	1,534,098	21,235,143
Business combinations under common control	497,118	379,641	2,024	174,231	17,424	1,070,438
As restated	7,488,376	11,829,435	473,973	962,275	1,551,522	22,305,581
Additions	59,080	98,146	39,083	64,473	1,866,029	2,126,811
Acquisition of subsidiaries (note 46)	275,790	324,056	64,832	34,130	136,940	835,748
Transferred from investment properties (note 16)	3,050	-	-	-	-	3,050
Disposals	(56,919)	(256,887)	(56,703)	(36,212)	(67,525)	(474,246)
Transfers	407,420	1,274,297	21,060	61,189	(1,763,966)	-
Exchange realignment	(3,114)	(25,721)	(350)	(2,104)	(343)	(31,632)
At 31 December 2012	8,173,683	13,243,326	541,895	1,083,751	1,722,657	24,765,312
Accumulated depreciation and impairment:						
At 1 January 2012						
As previously reported	2,120,395	4,663,453	310,763	520,333	2,249	7,617,193
Business combinations under common control	90,313	294,686	1,818	144,521	-	531,338
As restated	2,210,708	4,958,139	312,581	664,854	2,249	8,148,531
Depreciation provided during the year	310,116	843,804	62,166	121,633	-	1,337,719
Acquisition of subsidiaries (note 46)	79,076	179,967	39,322	20,188	-	318,553
Transferred from investment properties (note 16)	672	-	-	-	-	672
Impairment (note 6)	6,098	39,737	-	73	622	46,530
Disposals	(9,621)	(202,370)	(45,817)	(24,946)	(2,249)	(285,003)
Exchange realignment	(2,728)	(22,835)	(422)	(1,918)	-	(27,903)
At 31 December 2012	2,594,321	5,796,442	367,830	779,884	622	9,539,099
Net carrying amount:						
At 31 December 2012	5,579,362	7,446,884	174,065	303,867	1,722,035	15,226,213

Notes to Financial Statements (continued)

31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Land and 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						
As previously reported	5,738,542	10,649,791	545,022	687,719	2,788,269	20,409,343
Business combinations under common control	561,646	360,608	11,973	149,820	9,437	1,093,484
As restated	6,300,188	11,010,399	556,995	837,539	2,797,706	21,502,827
Additions	63,199	404,837	27,032	142,209	1,468,870	2,106,147
Disposals	(78,009)	(264,601)	(108,168)	(34,351)	(60,451)	(545,580)
Transfers	1,411,866	956,591	20,129	33,510	(2,422,096)	-
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 48)	(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	(3,487)	(7,160)	(51)	(11,558)	(576)	(22,832)
At 31 December 2011	7,488,376	11,829,435	473,973	962,275	1,551,522	22,305,581
Accumulated depreciation and impairment:						
At 1 January 2011						
As previously reported	1,903,402	4,256,507	336,748	451,051	870	6,948,578
Business combinations under common control	120,742	260,980	8,053	119,745	-	509,520
As restated	2,024,144	4,517,487	344,801	570,796	870	7,458,098
Depreciation provided during the year	292,072	787,506	57,524	136,218	-	1,273,320
Impairment (note 6)	626	7,626	483	129	1,379	10,243
Transfer to investment properties (note 16)	(692)	-	-	-	-	(692)
Disposals	(72,352)	(187,005)	(78,252)	(32,060)	-	(369,669)
Disposal of subsidiaries (note 48)	(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	12,090	(6,784)	(74)	(7,487)	-	(2,255)
At 31 December 2011	2,210,708	4,958,139	312,581	664,854	2,249	8,148,531
Net carrying amount:						
At 31 December 2011	5,277,668	6,871,296	161,392	297,421	1,549,273	14,157,050

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
2012						
At cost:						
At 1 January 2012	792,933	184,749	5,639	61,238	74,187	1,118,746
Additions	-	-	3,415	6,234	16,903	26,552
Transfers	2,602	470	-	-	(3,072)	-
Disposals	(11,147)	(67)	(402)	(2,277)	(1,317)	(15,210)
At 31 December 2012	784,388	185,152	8,652	65,195	86,701	1,130,088
Accumulated depreciation:						
At 1 January 2012	98,845	39,634	4,460	44,550	-	187,489
Depreciation provided during the year	36,979	4,426	709	13,344	-	55,458
Disposals	-	(123)	(346)	(1,514)	-	(1,983)
At 31 December 2012	135,824	43,937	4,823	56,380	-	240,964
Net carrying amount:						
At 31 December 2012	648,564	141,215	3,829	8,815	86,701	889,124
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

Notes to Financial Statements (continued)

31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The freehold lands with a total cost of RMB106,199,000 (2011:RMB142,617,000) are situated in Japan, USA, France and UK.

As at 31 December 2012, certain buildings were pledged to secure certain bank loans granted to the Group totalling RMB212,995,000 (31 December 2011: nil) (note 39).

As at 31 December 2012, the Group has not obtained the real estate certificates for buildings with a net carrying amount of RMB361,984,000. The Group was in the process of applying for the real estate certificates for buildings with a net carrying amount of approximately RMB338,421,000 as at 31 December 2012.

As at 31 December 2012, the Company has not obtained the real estate certificates for buildings with a net carrying amount of RMB64,279,000. The Company was in the process of applying for the real estate certificates for buildings with a net carrying amount of approximately RMB64,279,000 as at 31 December 2012.

16. INVESTMENT PROPERTIES

Group

	2012 RMB'000	2011 RMB'000 (Restated)
At cost:		
At 1 January	194,627	192,950
Acquisition of subsidiaries (note 46)	27,712	-
Transferred from owner-occupied properties (note 15)	-	1,677
Transfer to owner-occupied properties (note 15)	(3,050)	-
At 31 December	219,289	194,627
Accumulated depreciation:		
At 1 January	65,259	58,533
Acquisition of subsidiaries (note 46)	4,053	-
Transferred from owner-occupied properties (note 15)	-	692
Depreciation provided during the year	5,613	6,034
Transfer to owner-occupied properties (note 15)	(672)	-
At 31 December	74,253	65,259
Net carrying amount:		
At 31 December	145,036	129,368

16. INVESTMENT PROPERTIES (continued)

Group (continued)

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

	2012 RMB'000	2011 RMB'000 (Restated)
Medium term leases	116,669	124,040
Short term leases	28,367	5,328
	145,036	129,368

Company

	2012 RMB'000	2011 RMB'000
At cost:		
At 1 January	54,033	54,033
At 31 December	54,033	54,033
Accumulated depreciation:		
At 1 January	2,323	-
Depreciation provided during the year	2,322	2,323
At 31 December	4,645	2,323
Net carrying amount		
At 31 December	49,388	51,710

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

	2012 RMB'000	2011 RMB'000
Medium term leases	49,388	51,710

Notes to Financial Statements (continued)

31 December 2012

17. PREPAID LAND LEASE PAYMENTS

Group

	2012 RMB'000	2011 RMB'000 (Restated)
At cost:		
At 1 January	1,754,812	1,628,125
Additions	3,907	21,090
Transferred from property, plant and equipment (note 15)	-	231,931
Acquisition of subsidiaries	233,617	-
Disposals	(4,258)	-
Disposal of subsidiaries (note 48)	-	(9,633)
Disposal group held for sale (note 12)	-	(116,701)
At 31 December	1,988,078	1,754,812
Accumulated depreciation and impairment:		
At 1 January	260,757	250,026
Amortisation provided during the year	45,003	33,683
Acquisition of subsidiaries	6,049	-
Disposals	(3,199)	-
Disposal of subsidiaries (note 48)	-	(2,715)
Disposal group held for sale (note 12)	-	(20,237)
At 31 December	308,610	260,757
Net carrying amount:		
At 31 December	1,679,468	1,494,055
Of which:		
Current portion included in prepayments, deposits and other receivables (note 31)	37,812	32,078
Non-current portion	1,641,656	1,461,977
	1,679,468	1,494,055

Except for three (2011: three) parcels of leasehold land with a total cost of RMB26,479,000 (2011: RMB29,300,000), 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.

17. PREPAID LAND LEASE PAYMENTS (continued)

Group (continued)

The Group's leasehold land is held under the following lease terms:

	2012 RMB'000	2011 RMB'000 (Restated)
At cost:		
Long term (no less than 50 years)	**98,228**	101,050
Medium term (no less than 10 years but less than 50 years)	**1,889,850**	1,653,762
	1,988,078	1,754,812

As at 31 December 2012, certain of the Group's land use rights with a net carrying amount of approximately RMB20,784,000 (2011: RMB914,000) were pledged to secure certain bank loans granted to the Group (note 39).

Company

	2012 RMB'000	2011 RMB'000
At cost:		
At 1 January	**249,505**	81,500
Additions	**-**	13,506
Transferred from property, plant and equipment (note 15)	**-**	154,499
At 31 December	**249,505**	249,505
Accumulated depreciation:		
At 1 January	**16,263**	12,428
Amortisation provided during the year	**5,403**	3,835
At 31 December	**21,666**	16,263
Net carrying amount:		
At 31 December	**227,839**	233,242
Of which:		
Current portion included in prepayments, deposits and other receivables (note 31)	**5,403**	1,900
Non-current portion	**222,436**	231,342
	227,839	233,242

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

Notes to Financial Statements (continued)

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18. GOODWILL

Group

	2012 RMB'000	2011 RMB'000 (Restated)
At cost:		
At 1 January		
As previously reported	73,441	77,068
Business combinations under common control	137,139	137,139
As restated	210,580	214,207
Acquisition of subsidiaries (note 46)	155,036	-
Disposal of subsidiaries (note 48)	-	(3,627)
At 31 December	365,616	210,580
Accumulated impairment:		
At 1 January		
As previously reported	60,958	60,958
Business combinations under common control	137,139	-
As restated	198,097	60,958
Impairment during the year (note 6)	-	137,139
At 31 December	198,097	198,097
Net carrying amount:		
At 31 December	167,519	12,483

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 2012 RMB'000
Printing and packing machinery	Industrial equipment	12,483
Transmission and distribution equipment	High efficiency and clear energy	155,036
		167,519

18. GOODWILL (continued)

Impairment testing of goodwill (continued)

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 printing and packing machinery cash flow projections is 13% (2011: 13%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2011: 3%). The discount rate applied to the transmission and distribution equipment cash flow projections is 14% and cash flows beyond the five-year period are extrapolated using a growth rate of 3%.

Assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2012 and 2011. 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 reflects specific risks relating to the relevant units.

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

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
2012					
At cost:					
1 January 2012					
As previously reported	481,259	515,053	425,779	75,642	1,497,733
Business combinations under common control	106,234	-	-	7,475	113,709
As restated	587,493	515,053	425,779	83,117	1,611,442
Additions	205,227	8,932	-	113,190	327,349
Acquisition of subsidiaries (note 46)	30,361	261	-	181	30,803
Disposals	(85,872)	(22,972)	-	(4,965)	(113,809)
Exchange realignment	66	-	-	(15)	51
At 31 December 2012	737,275	501,274	425,779	191,508	1,855,836

Notes to Financial Statements (continued)

31 December 2012

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
2012 (continued)					
Accumulated amortisation and impairment:					
1 January 2012					
As previously reported	344,918	293,817	49,886	35,483	724,104
Business combinations under common control	49,593	-	-	7,330	56,923
As restated	394,511	293,817	49,886	42,813	781,027
Amortisation provided during the year	48,408	35,592	17,903	17,135	119,038
Acquisition of subsidiaries (note 46)	980	-	-	-	980
Impairment (note 6)	-	-	-	1,659	1,659
Disposals	(22,358)	(18,407)	-	(1,762)	(42,527)
Exchange realignment	177	-	-	(74)	103
At 31 December 2012	421,718	311,002	67,789	59,771	860,280
Net carrying amount:					
At 31 December 2012	315,557	190,272	357,990	131,737	995,556
2011					
At cost:					
1 January 2011					
As previously reported	360,055	499,764	425,779	47,403	1,333,001
Business combinations under common control	144,130	-	-	8,131	152,261
As restated	504,185	499,764	425,779	55,534	1,485,262
Additions	151,905	17,203	-	40,145	209,253
Disposals	(63,130)	-	-	(11,480)	(74,610)
Disposal of subsidiaries (note 48)	(100)	(1,914)	-	-	(2,014)
Disposal group held for sale (note 12)	-	-	-	(1,082)	(1,082)
Exchange realignment	(5,367)	-	-	-	(5,367)
At 31 December 2011	587,493	515,053	425,779	83,117	1,611,442
Accumulated amortisation and impairment:					
1 January 2011					
As previously reported	330,520	257,973	32,120	28,056	648,669
Business combinations under common control	78,293	-	-	7,647	85,940
As restated	408,813	257,973	32,120	35,703	734,609
Amortisation provided during the year	44,968	36,960	17,766	9,161	108,855
Impairment (note 6)	4,530	-	-	-	4,530
Disposals	(61,459)	-	-	(995)	(62,454)
Disposal of subsidiaries (note 48)	(71)	(1,116)	-	-	(1,187)
Disposal group held for sale (note 12)	-	-	-	(1,056)	(1,056)
Exchange realignment	(2,270)	-	-	-	(2,270)
At 31 December 2011	394,511	293,817	49,886	42,813	781,027
Net carrying amount:					
At 31 December 2011	192,982	221,236	375,893	40,304	830,415

19. OTHER INTANGIBLE ASSETS (continued)

Company

	Patents and licences RMB'000	Others RMB'000	Total RMB'000
2012			
At cost:			
At 1 January	124,121	33,978	158,099
Additions	4,324	84,678	89,002
Disposals	(125,097)	(22,974)	(148,071)
At 31 December	3,348	95,682	99,030
Accumulated amortisation:			
At 1 January	1,479	11,083	12,562
Amortisation provided during the year	14,929	7,165	22,094
Disposal	(14,595)	-	(14,595)
At 31 December	1,813	18,248	20,061
Net carrying amount:			
At 31 December	1,535	77,434	78,969
2011			
At cost:			
At 1 January	3,348	17,433	20,781
Additions	120,773	26,534	147,307
Disposals	-	(9,989)	(9,989)
At 31 December	124,121	33,978	158,099
Accumulated amortisation:			
At 1 January	1479	7,478	8,957
Amortisation provided during the year	-	3,605	3,605
At 31 December	1479	11,083	12,562
Net carrying amount:			
At 31 December	122,642	22,895	145,537

Notes to Financial Statements (continued)

31 December 2012

20. INVESTMENTS IN SUBSIDIARIES

Company

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	14,677,441	13,450,023
Listed investment, at cost	1,465,478	1,465,478
Impairment of unlisted investments	(88,758)	(4,746)
	16,054,161	14,910,755

As at 31 December 2012, the Company had one listed subsidiary, Shanghai Mechanical & Electrical Industry Co., Ltd. ("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 2012, the fair market value of the listed shares of the subsidiary held by the Company amounted to RMB3,897,422,000.

The movement of impairment is as follows:

Company

	2012 RMB'000	2011 RMB'000
At 1 January	4,746	-
Addition	84,012	4,746
At 31 December	88,758	4,746

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Turbine Works Co., Ltd. 上海汽輪機廠有限公司	PRC	RMB246,675	100%	-	Production and sale of turbines, ancillary appliances and spare parts
Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. 上海電氣集團上海電機廠有限公司	PRC	RMB241,818	100%	-	Production and sale of turbine generators and spare parts
Shanghai Boiler Works, Ltd. 上海鍋爐廠有限公司	PRC	RMB207,483	100%	-	Sale of power station boilers, industry boilers and power station equipment
Shanghai Power Station Auxiliary Equipment Works Co., Ltd. 上海電站輔機廠有限公司	PRC	RMB62,481	100%	-	Design and production of turbo-ancillary appliances and ancillary boiler appliances

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 Power Generation Equipment Co., Ltd. # 上海電氣電站設備有限公司	PRC	USD264,792	-	60%	Design, manufacture and sale of power generation equipment and auxiliary products
Shanghai Electric Wind Power Equipment Co., Ltd. 上海電氣風電設備有限公司	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. 上海電氣工程設計有限公司	PRC	RMB10,000	100%	-	Design, consulting and supervision of engineering works
SEC-IHI Power Generation Environment Protection Engineering Co., Ltd. 上海電氣石川島電站環保工程有限公司	PRC	RMB50,000	70%	-	Design, manufacture sale of desulphurisation equipment
Shanghai Heavy Machinery Plant Co., Ltd. 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. 上海電氣核電設備有限公司	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. 上海船用曲軸有限公司	PRC	RMB550,000	86.73%	-	Production and sale of crankshafts used for large low-speed ship- use diesel engines
Shanghai No.1 Machine Tool Works Co., Ltd. 上海第一機床廠有限公司	PRC	RMB620,000	100%	-	Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipment
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. 上海電氣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

Notes to Financial Statements (continued)

31 December 2012

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 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. 上海電氣集團財務有限責任公司	PRC	RMB1,500,000	73.38%	6.24%	Provision of financial services
Shanghai Electric Environment Protection Investment Co., Ltd. 上海電氣環保投資有限公司	PRC	RMB200,000	100%	-	Investment and management in environment protection industry
Shanghai Electric International Economic and Trading Co., Ltd. 上海電氣國際經濟貿易有限公司	PRC	RMB350,000	100%	-	Import and export of products
Shanghai Electric Nantong Environment Thermoelectricity Co., Ltd. # 上海電氣環保熱電（南通）有限公司	PRC	USD19,063	75%	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
Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd. * 上海電氣集團通用冷凍空調設備有限公司	PRC	RMB351,340	-	47.28%	Production and sale of refrigeration and air-conditioning equipment, provision of technical services and equipment construction services
Shanghai Electric Group Printing & Packaging Machinery Co., Ltd. * 上海電氣集團印刷包裝機械有限公司	PRC	RMB632,863	-	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. * 上海電氣液壓氣動有限公司	PRC	RMB251,243	-	47.28%	Sale of pressurised pumps and related equipment

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
Goss International Corporation* 美國高斯國際有限公司	USA	USD1.00	-	47.28%	Production and sale of printing 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. & 上海電氣輸配電裝備有限公司	PRC	RMB2,000,000	50%	-	Production and sale of power transmission, distribution and controlling equipment
Shanghai Electric-SPX Engineering & Technologies Co., Ltd. # 上海電氣斯必克工程技術有限公司	PRC	RMB256,271	55%	-	Installation and sale of dry cooling products
Shanghai Electric (India) Ltd. 上海電氣（印度）有限公司	India	USD9,800	100%	-	Provision of after service and spare parts for power station
Shanghai Electric (Vietnam) Ltd. 上海電氣（越南）有限公司	Vietnam	USD1,500	100%	-	Provision of after service and components for secured projects
Shanghai Electric Architecture Saving Co. Ltd. 上海電氣建筑節能有限公司	PRC	RMB300,000	55%	-	Development of building energy-saving technology, systems integration and energy management contract
Shanghai Electric Wind Energy Co., Ltd. 上海電氣風能有限公司	PRC	EUR104,006	51%	-	Design, research and development and sales wind power equipment and spare parts
Shanghai Electric Insurance Brokers Co., Ltd. 上海電氣保險經濟有限公司	PRC	RMB10,000	100%	-	Provision of insurance and brokerage services
Shanghai Electric Leasing Co., Ltd. 上海電氣租賃有限公司	PRC	RMB500,000	100%	-	Provision of finance leases and business consulting
Shanghai Electric Hongkong Co., Ltd. 上海電氣香港有限公司	PRC	HKD83,673	91.6%	8.4%	Sale electromechanical products and relative service , provide trade service

Notes to Financial Statements (continued)

31 December 2012

20. INVESTMENTS IN SUBSIDIARIES (continued)

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

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

	2012 RMB'000	2011 RMB'000 (Restated)
Share of net assets	92,537	319,887

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.

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

	2012 RMB'000	2011 RMB'000 (Restated)
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	166,530	623,415
Non-current assets	44,067	118,412
Current liabilities	(114,623)	(419,901)
Non-current liabilities	(3,437)	(2,039)
Net assets	92,537	319,887
Share of the jointly-controlled entities' results:		
Revenue	199,205	639,494
Other income	618	11,670
	199,823	651,164
Total expenses	(195,242)	(514,737)
Income tax expenses	(705)	(18,223)
Profit after tax	3,876	118,204

22. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	-	-	**1,836,371**	1,717,570
Share of net assets	**3,582,464**	2,850,847	-	-
Goodwill on acquisition	**21,282**	21,282	-	-
	3,603,746	2,872,129	**1,836,371**	1,717,570

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. 上海軌道交通設備發展有限公司	PRC	RMB662,520	34.91%	-	Production, sale, maintenance and technology development of city rail-traffic equipment and provision of consultancy services
Siemens Gas Turbine Parts Co., Ltd. # 上海西門子燃气輪機部件有限公司	PRC	EUR32,000	49%	-	Production and sale of combustion chambers and burners
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
Trench High Voltage Products Co., Ltd. , Shengyang # 傳奇電氣（瀋陽）有限公司	PRC	RMB112,634	35%	-	Production and sale of bushings and instrument transformers
Siemens Shanghai High Voltage Switchgear Co., Ltd. # 上海西門子高壓開關有限公司	PRC	USD13,100	45%	-	Production and sale of gas insulated switchgears

Notes to Financial Statements (continued)

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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 Direct	Indirect	Principal activities
SEC Alstom (Shanghai Baoshan) Transformers Co., Ltd. # 上海電氣阿爾斯通寶山電器有限公司	PRC	USD50,180	50%	-	Production and sale of oil-immersed power transformers
SEC Alstom (Wuhan) Transformers Co., Ltd. #^ 上海電氣阿爾斯通武漢變壓器有限公司	PRC	EUR20,000	25%	25%	Production and sale of oil-immersed power transformers
Yileng Carrier Air Conditioning Equipment Co., Ltd. # * 上海一冷開利空調設備有限公司	PRC	RMB372,343	-	14.18%	Production and sale of centralised air-conditioning systems
Shanghai Marathon-Gexin Electric Co., Ltd. # * 上海馬拉松革新電氣有限公司	PRC	USD3,700	-	21.28%	Production, repair and sale of electric machines and machine sets
Mitsubishi Electric Shanghai Mechanical &Electrical Elevator Co., Ltd. # * 三菱電機上海機電電梯有限公司	PRC	USD53,000	-	18.91%	Research and development, manufacture and sale of major components of elevators, escalators and automatic sidewalks
Shanghai Nabtesco Hydraulic Co., Ltd. # * 上海納博特斯克液壓有限公司	PRC	USD14,500	-	14.18%	Production and sale of hydraulic travelling motors and swing motors
Shanghai Ri Yong-JEA Gate Electric Co., Ltd. # * 上海日用-友捷汽車電氣有限公司	PRC	USD17,000	-	18.91%	Design, manufacture and sale of auto radiator fans, blowers and micromotors
Shanghai Faiverley Transport Co., Ltd. # * 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. # * 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 Jintai Engineering Machinery Co., Ltd. * 上海金泰工程機械有限公司	PRC	RMB832,239	-	23.17%	Manufacturing and operation of engineering machinery
Shanghai welding Equipment Limited Company* 上海焊接器材有限公司	PRC	RMB15,000	-	15.76%	Production of welding non-ferrous metals and materials
Siemens Wind Power Blades (Shanghai) Co., Ltd. # 西門子風力發電設備（上海）有限公司	PRC	EUR60,828	51%	-	Manufacturing of valves and cocks

\# Sino-foreign equity joint ventures

^ SEC Areva (Wuhan) Transformers Co., Ltd. was renamed as SEC Alstom (Wuhan) Transformers Co., Ltd. in year 2012.

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

22. INVESTMENTS IN ASSOCIATES (continued)

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:

	2012 RMB'000	2011 RMB'000 (Restated)
Assets	22,632,384	20,685,393
Liabilities	12,410,080	11,546,598
Revenue	26,182,693	26,614,034
Net profit	2,219,460	2,294,801

23. LOANS AND LEASE RECEIVABLES

Group

	2012			2011 (Restated)		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
Loans to the ultimate holding company	600,000	(6,000)	594,000	-	-	-
Loans to SEC group companies*	878,300	(11,371)	866,929	854,501	(15,110)	839,391
Loans to jointly-controlled entities	24,500	(245)	24,255	24,500	(245)	24,255
Loans to associates	30,000	(300)	29,700	30,000	(300)	29,700
	1,532,800	(17,916)	1,514,884	909,001	(15,655)	893,346
Lease receivables	3,009,096			2,510,719		
Less: Unearned finance income	(448,935)			(308,799)		
Net lease receivables	2,560,161	(135,292)	2,424,869	2,201,920	(69,581)	2,132,339
	4,092,961	(153,208)	3,939,753	3,110,921	(85,236)	3,025,685
Portion classified as current assets	2,733,325	(112,117)	2,621,208	2,045,952	(69,169)	1,976,783
Non-current portion	1,359,636	(41,091)	1,318,545	1,064,969	(16,067)	1,048,902

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

The Group provides finance lease services to customers who purchase equipment from the Group or other vendors through SELC. The lease terms of finance lease contracts entered between the Group and lessees range from 2 to 5 years. At the end of lease term, the lessee has an option to purchase leased assets at a nominal price, then ownership of the leased assets is transferred to the lessee.

Notes to Financial Statements (continued)

31 December 2012

23. LOANS AND LEASE RECEIVABLES (continued)

Company

Loans receivable

	Annual interest rate	2012 Gross RMB'000	2012 Provision RMB'000	2012 Net RMB'000	2011 Gross RMB'000	2011 Provision RMB'000	2011 Net RMB'000
Current portion	Nil	1,095,000	-	1,095,000	400,000	-	400,000
Current portion	6.10%-6.56%	-	-	-	900,000	-	900,000
		1,095,000	-	1,095,000	1,300,000	-	1,300,000

As at 31 December 2012, the above loans represent the entrusted loans provided by the Company to subsidiaries.

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

Group

	2012 Impairment of loans receivable RMB'000	2012 Impairment of lease receivables RMB'000	2011 (Restated) Impairment of loans receivable RMB'000	2011 (Restated) Impairment of lease receivables RMB'000
At 1 January				
As previously reported	26,141	-	41,217	-
Business combinations under common control	(10,486)	69,581	(19,457)	42,558
As restated	15,655	69,581	21,760	42,558
Impairment losses recognised (note 6)	2,261	66,428	-	27,023
Impairment losses reversed (note 6)	-	-	(6,105)	-
Amount written off as uncollectible	-	(717)	-	-
At 31 December	17,916	135,292	15,655	69,581

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

	2012 RMB'000	2011 RMB'000 (Restated)
Credit loans receivable	654,500	54,500
Guaranteed loans receivable	878,300	854,501
	1,532,800	909,001

As at 31 December 2012, none (2011: nil) of the Group's loans receivable was past due. The annual interest rates of loans provided to related parties range from 5.04% to 7.08% (2011: 5.23% to 6.65%).

23. LOANS AND LEASE RECEIVABLES (continued)

An aged analysis of the gross and net amounts of lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period is as follows:

Group

	2012		2011 (Restated)	
	Lease receivables RMB'000	Net lease receivables RMB'000	Lease receivables RMB'000	Net lease receivables RMB'000
Within 1 year	1,758,769	1,418,368	1,631,967	1,403,940
Over 1 year within 5 years	1,250,327	1,141,793	878,752	797,980
	3,009,096	2,560,161	2,510,719	2,201,920

The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following five consecutive accounting years:

Group

	2012		2011 (Restated)	
	Lease receivable RMB'000	Net lease receivables RMB'000	Lease receivable RMB'000	Net lease receivables RMB'000
Within 1 year	1,413,293	1,200,525	1,339,074	1,136,951
Over 1 year within 5 years	1,341,110	1,155,654	1,171,645	1,064,969
Over 5 years	254,693	203,982	-	-
	3,009,096	2,560,161	2,510,719	2,201,920

There were no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that needed to be recorded as at the end of the reporting period.

As part of its normal business, the Group entered into an arrangement (the "Arrangement") to transfer certain lease receivables to banks. Under the Arrangement, the Group may be required to reimburse the banks for losses if any lessees default. The Group is exposed to default risks of the lessees after the transfer and accordingly, it continued to recognise the full carrying amount of such lease receivables and treat the transactions as borrowings. Subsequent to the transfer, the Group does not retain any rights on the use of the lease receivables, including sale, transfer or pledge of the lease receivables to any other third parties. The aggregate carrying amount of lease receivables transferred under the Arrangement that have not been settled as at 31 December 2012 amounted to RMB39,713,000 (2011: nil).

Notes to Financial Statements (continued)

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24. OTHER INVESTMENTS (NON-CURRENT)

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Equity investments:				
- Available-for-sale (unlisted), at cost	40,761	42,006	12,925	12,925
- Impairment	(10,947)	(10,947)	-	-
	29,814	31,059	12,925	12,925
- Available-for-sale (listed), at fair value	614,832	137,346	479,219	5,910
	644,646	168,405	492,144	18,835
Debt investments:				
- Available-for-sale (unlisted), at fair value	334,334	101,700	-	-
- Available-for-sale (listed), at fair value	51,544	20,000	-	-
- Held-to-maturity (unlisted), at amortised cost	10,860	10,317	-	-
	396,738	132,017	-	-
Trust product:				
- Available-for-sale (unlisted), at fair value	376,451	380,154	376,451	380,154
	1,417,835	680,576	868,595	398,989

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

Group

	2012 RMB'000	2011 RMB'000 (Restated)
At 1 January	10,947	13,048
Disposals	-	(2,101)
At 31 December	10,947	10,947

As at 31 December 2012, listed available-for-sale equity investments of RMB472,800,000 (31 December 2011: nil) were restricted for trading over certain periods of less than one year.

As at 31 December 2012, the above trust product was single fund trust product invested in the Hong Kong market ("Trust Product") subscribed by the Company on 21 December 2011. The Company subscribed for 232,000,000 H-shares of Beijing Jingneng Clean Energy Co., Ltd. and 47,020,000 H-shares of Huadian Fuxin Energy Corporation Limited under the Trust Product. The term of the Trust Product is no longer than eight years.

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

During the year, the increase in fair value of the Group's non-current available-for-sale investments recognised in other comprehensive income amounted to RMB91,191,000 (2011: decrease in fair value of RMB8,132,000). In addition, there was no disposal of any non-current available-for-sale investments. Upon the disposal of certain non-current available-for-sale investments, a cumulative gain of RMB356,000 was transferred from equity and recognised in the income statement during 2011.

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

As at 31 December 2012, certain unlisted available-for-sale equity investments with a carrying amount of RMB29,814,000 (2011: RMB31,059,000) 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:

<u>Deferred tax assets</u>

Group

	2012						
	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 2012							
As previously reported	-	1,016,105	24,314	399,011	45,271	45,292	1,529,993
Business combinations under common control	47,364	35,287	-	(4,403)	-	-	78,248
As restated	47,364	1,051,392	24,314	394,608	45,271	45,292	1,608,241
Effect of change in tax rate on the opening balance credited to the income statement (note 10)	-	670	-	(558)	-	-	112
Deferred tax credited/(charged) to the income statement during the year (note 10)	18,400	128,747	(235)	132,121	41,965	(7,013)	313,985
Deferred tax credited to the equity during the year	-	-	24,409	-	-	-	24,409
Acquisition of subsidiaries (note 46)	-	4,632	-	-	-	-	4,632
Exchange realignment	-	1,436	-	(1,413)	-	-	23
Gross deferred tax assets at 31 December 2012	65,764	1,186,877	48,488	524,758	87,236	38,279	1,951,402
Offset against deferred tax liabilities*							(76,508)
Net deferred tax assets at 31 December 2012							1,874,894

Notes to Financial Statements (continued)

31 December 2012

25. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2012					
	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 2012						
As previously reported	(154,092)	(25,591)	(24,995)	(106,387)	(53,263)	(364,328)
Business combinations under common control	-	(51,000)	-	-	(44,988)	(95,988)
As restated	(154,092)	(76,591)	(24,995)	(106,387)	(98,251)	(460,316)
Deferred tax charged/(credited) to the income statement during the year (note 10)	1,467	1,390	563	(61,526)	3,954	(54,152)
Deferred tax credited to equity during the year	-	-	(46,838)	-	-	(46,838)
Acquisition of subsidiaries (note 46)	-	(59,016)	-	-	-	(59,016)
Exchange realignment	-	5,617	-	-	-	5,617
Gross deferred tax liabilities at 31 December 2012	(152,625)	(128,600)	(71,270)	(167,913)	(94,297)	(614,705)
Offset against deferred tax assets*						76,508
Net deferred tax liabilities at 31 December 2012						(538,197)

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							
As previously reported	2,550	799,991	-	305,036	44,657	33,441	1,185,675
Business combinations under common control	73,967	16,005	-	12,574	-	-	102,546
As restated	76,517	815,996	-	317,610	44,657	33,441	1,288,221
Effect of change in tax rate on the opening balance credited to the income statement (note 10)	-	27	-	-	-	-	27
Deferred tax credited/(charged) to the income statement during the year (note 10)	(29,153)	245,310	265	76,998	614	12,036	306,070
Deferred tax credited to the equity during the year	-	-	24,049	-	-	-	24,049
Disposal of subsidiaries (note 48)	-	(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	47,364	1,051,392	24,314	394,608	45,271	45,292	1,608,241
Offset against deferred tax liabilities*							(40,724)
Net deferred tax assets at 31 December 2011							1,567,517

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						
As previously reported	(155,554)	(26,744)	(92,573)	(66,139)	(63,390)	(404,400)
Business combinations under common control	-	-	-	-	(46,451)	(46,451)
As restated	(155,554)	(26,744)	(92,573)	(66,139)	(109,841)	(450,851)
Deferred tax charged/(credited) to the income statement during the year (note 10)	1,462	1,153	15,377	(40,258)	(4,855)	(27,121)
Deferred tax credited to equity during the year	-	-	52,201	-	-	52,201
Acquisition of subsidiaries	-	(51,000)	-	-	-	(51,000)
Deferred tax credited to others during the year	-	-	-	-	16,445	16,445
Exchange realignment	-	-	-	10	-	10
Gross deferred tax liabilities at 31 December 2011	(154,092)	(76,591)	(24,995)	(106,387)	(98,251)	(460,316)
Offset against deferred tax assets*						40,724
Net deferred tax liabilities at 31 December 2011						(419,592)

Deferred tax assets

Company

	2012				2011			
	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	Unrealised loss on investments RMB'000	Total RMB'000
At 1 January	217,797	201,726	538	420,061	127,547	140,767	-	268,314
Deferred tax credited to the income statement during the year	43,244	47,288	-	90,532	90,250	60,959	-	151,209
Deferred tax credited to the equity during the year	-	-	47,920	47,920	-	-	538	538
Gross deferred tax assets at 31 December	261,041	249,014	48,458	558,513	217,797	201,726	538	420,061
Offset against deferred tax liabilities*				(45,592)				(2,649)
Net deferred tax assets at 31 December				512,921				417,412

Notes to Financial Statements (continued)

31 December 2012

25. DEFERRED TAX (continued)

Deferred tax liabilities

Company

	2012			2011		
	Unrealised gain on investment RMB'000	Hedging Instrument RMB'000	Total RMB'000	Unrealised gain on investment RMB'000	Hedging Instrument RMB'000	Total RMB'000
At 1 January	(2,150)	(499)	(2,649)	(2,150)	(36,481)	(38,631)
Deferred tax credited/ (charged) income to the statement during the year	-	499	499	-	13,036	13,036
Deferred tax credited/ (charged) income to the equity during the year	(19,800)	(23,642)	(43,442)	-	22,946	22,946
Gross deferred tax liabilities at 31 December	(21,950)	(23,642)	(45,592)	(2,150)	(499)	(2,649)
Offset against deferred tax assets*			45,592			2,649
Net deferred tax liabilities at 31 December			-			-

* For presentation purposes, 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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Tax losses	4,038,574	2,710,668	-	-
Deductible temporary differences	4,295,844	4,039,261	-	-
	8,334,418	6,749,929	-	-

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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Raw materials	4,566,528	4,361,598	41,393	-
Work in progress	11,425,466	11,833,028	422,355	201,350
Finished goods	5,941,842	5,759,377	20,796	45,351
	21,933,836	21,954,003	484,544	246,701

27. CONSTRUCTION CONTRACTS

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Gross amount due from contract customers	1,476,431	290,134	553,902	102,224
Contract costs incurred plus recognised profits less losses	49,017,777	51,517,692	42,520,916	47,045,986
Less: progress billings	(47,541,346)	(51,227,558)	(41,967,014)	(46,943,762)
	1,476,431	290,134	553,902	102,224

As at 31 December 2012, advances received from customers for contract work included in the Group's and the Company's balances of other payables and accruals amounted to approximately RMB3,818,226,000 (2011: RMB4,230,357,000) and RMB3,093,167,000 (2011: RMB4,072,721,000), respectively.

28. TRADE RECEIVABLES

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Trade receivables	24,718,265	22,772,592	12,189,073	11,055,834
Impairment	(4,112,568)	(3,742,445)	(786,841)	(595,812)
	20,605,697	19,030,147	11,402,232	10,460,022

Notes to Financial Statements (continued)

31 December 2012

28. TRADE RECEIVABLES (continued)

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

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

As part of its normal business, the Group entered into an arrangement (the "Arrangement") to transfer certain trade receivables to banks. Under the Arrangement, the Group may be required to reimburse the banks for losses if any customers default. The Group is exposed to default risks of the customers after the transfer and accordingly, it continued to recognise the full carrying amount of such trade receivables and treat the transactions as borrowings. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. The aggregate carrying amount of trade receivables transferred under the Arrangement that have not been settled as at 31 December 2012 amounted to RMB584,215,000 (31 December 2011: RMB313,911,000).

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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Undue	12,889,096	12,523,348	7,562,277	6,921,900
Within 3 months past due	2,426,041	2,160,724	962,885	729,339
Over 3 months but within 6 months past due	1,806,303	1,530,885	774,633	701,178
Over 6 months but within 1 year past due	1,950,840	1,586,125	907,533	827,193
Over 1 year but within 2 years past due	1,256,106	859,203	702,939	766,264
Over 2 years but within 3 years past due	234,455	349,900	297,053	463,329
Over 3 years past due	42,856	19,962	194,912	50,819
	20,605,697	19,030,147	11,402,232	10,460,022

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision for bad and doubtful debts, is as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Within 3 months	7,555,324	5,778,899	2,934,567	752,795
Over 3 months but within 6 months	1,964,951	1,919,373	1,026,330	668,658
Over 6 months but within 1 year	4,275,696	6,034,359	2,070,925	4,508,369
Over 1 year but within 2 years	3,711,018	4,175,905	2,726,685	3,185,946
Over 2 years but within 3 years	2,374,596	998,068	1,670,803	962,802
Over 3 years	724,112	123,543	972,922	381,452
	20,605,697	19,030,147	11,402,232	10,460,022

28. TRADE RECEIVABLES (continued)

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
At 1 January				
As previously reported	3,634,773	2,704,907	595,812	229,661
Business combinations under common control	107,672	126,048	-	-
As restated	3,742,445	2,830,955	595,812	229,661
Impairment losses recognised (note 6)	579,349	1,365,646	219,917	369,384
Acquisition of subsidiaries	14,769	-	-	-
Disposal of subsidiaries	(39,059)	(833)	-	-
Amount written off as uncollectible	(22,931)	(30,087)	-	(7)
Impairment losses reversed (note 6)	(168,225)	(402,888)	(28,888)	(3,226)
Disposal group classified as held for sale	-	(13,417)	-	-
Others	6,220	(6,931)	-	-
	4,112,568	3,742,445	786,841	595,812

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 RMB9,027,213,000 (2011: RMB7,251,109,000) and RMB3,870,010,000 (2011: RMB3,835,513,000), 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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	11,935,756	12,029,969	7,090,418	6,066,560
Less than 3 months past due	2,105,160	2,112,562	793,554	709,741
3 to 6 months past due	1,072,162	1,177,198	418,827	438,108
Over 6 months past due	577,974	201,754	16,264	5,912
	15,691,052	15,521,483	8,319,063	7,220,321

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.

Notes to Financial Statements (continued)

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28. TRADE RECEIVABLES (continued)

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
The ultimate holding company	79,499	89,131	-	-
Subsidiaries	-	-	231,349	174,196
Jointly-controlled entities	-	35	-	-
Associates	49,271	8,363	-	-
SEC group companies	100,382	91,688	-	-
Other related companies	43,341	132,397	-	72,280
	272,493	321,614	231,349	246,476

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

29. DISCOUNTED BILLS RECEIVABLE

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

	2012 RMB'000	2011 RMB'000 (Restated)
Within 3 months	608,997	822,947
Over 3 months but within 6 months	281,227	88,320
	890,224	911,267
Less: Provision for discounted bills receivable	(9,054)	(9,123)
	881,170	902,144

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

	2012 RMB'000	2011 RMB'000 (Restated)
At 1 January	9,123	829
Recognised impairment losses (note 6)	-	8,294
Impairment losses reversed (note 6)	(69)	-
	9,054	9,123

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

	2012 RMB'000	2011 RMB'000 (Restated)
Associates	12,800	-
SEC group companies	757,544	773,655
Other related companies	70,900	75,163
	841,244	848,818

The annual interest rates of discounting services provided to related parties ranged from 4.32% to 9.90% for the year ended 31 December 2012 (2011: 4.74% to 6.36%).

29. DISCOUNTED BILLS RECEIVABLE (continued)

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

	2012 RMB'000	2011 RMB'000 (Restated)
Associates	2,400	8,600
SEC group companies	46,580	54,849
	48,980	63,449

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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Within 3 months	2,439,511	1,990,665	63,292	70,703
Over 3 months but within 6 months	2,587,013	2,479,956	888,757	584,463
Over 6 months but within 1 year	63,650	40,176	9,000	-
	5,090,174	4,510,797	961,049	655,166

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
SEC group companies	130,514	170,493	71,657	83,007
Other related companies	-	2,168	-	-
	130,514	172,661	71,657	83,007

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 2012 was an amount of RMB1,007,701,000 (2011: RMB873,431,000) 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 2012.

Notes to Financial Statements (continued)

31 December 2012

30. BILLS RECEIVABLE (continued)

As at 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Endorsed Bills") with a carrying amount of RMB689,104,000 to certain of its suppliers in order to settle the trade payables due to these suppliers (the "Endorsement") (the Company: nil). In the opinion of the directors, the Group have retained the substantial risks and rewards, which include default risks relating to these Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group do not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. As at 31 December 2012, the aggregate carrying amount of the trade payables settled by the Endorsed Bills of the Group to which the suppliers have recourse were RMB689,104,000 (the Company: nil).

As at 31 December 2012, the Group and the Company endorsed certain bills receivable accepted by reputable banks in the PRC (the "Derecognized Bills"), to certain of its suppliers in order to settle the trade payables due to these suppliers with a carrying amount in aggregate of RMB943,843,000 and RMB1,311,954,000. The Derecognized Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills have a right of recourse against the Group and the Company if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group and the Company have transferred substantially all risks and rewards relating to the Derecognized Bills. Accordingly, it has derecognized the full carrying amounts of the Derecognized Bills and the associated trade payables. The maximum exposure to loss from the Group and the Company's Continuing Involvement in the Derecognized Bills and the undiscounted cash flows to repurchase these Derecognized Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's and the Company's Continuing Involvement in the Derecognized Bills are not significant.

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Prepayments	7,645,732	7,360,664	3,173,411	2,535,639
Deposits and other receivables	1,259,866	1,522,394	477,716	539,984
Prepaid land lease payments (note 17)	37,812	32,078	5,403	1,900
Dividend receivables	34,004	26,118	234,587	128,201
Other current assets	29,051	31,779	-	-
Due from subsidiaries	-	-	11,416,077	13,537,557
Due from the ultimate holding company	7,215	5,377	-	-
Due from jointly-controlled entities	1	-	-	-
Due from associates	446,872	133,276	49,114	39,076
Due from SEC group companies	315,794	406,387	65,159	91,663
Due from other related companies	936,648	1,098,579	28,090	116,413
	10,712,995	10,616,652	15,449,557	16,990,433
Less: Provision for deposits and other receivables	(47,449)	(44,193)	(895)	(309)
	10,665,546	10,572,459	15,448,662	16,990,124

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

As at 31 December 2012, the Group's and the Company's balances with related parties included prepayments of RMB1,583,725,000 (2011: RMB1,633,260,000) and RMB11,120,955,000 (2011: RMB13,453,243,000), respectively. The remaining balances of RMB122,805,000 (2011: RMB10,359,000) and RMB437,485,000 (2011: RMB331,466,000) 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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
At 1 January				
As previously reported	42,926	53,571	309	387
Business combinations under common control	1,267	1,267	-	-
As restated	44,193	54,838	309	387
Acquisition of subsidiaries	6,692	-	-	-
Impairment losses recognised (note 6)	3,924	2,048	586	-
Amount written off as uncollectible	-	(106)	-	-
Impairment losses reversed (note 6)	(5,048)	(9,169)	-	(78)
Disposal of subsidiaries	(2,312)	(161)	-	-
Disposal group classified as held for sale	-	(3,257)	-	-
	47,449	44,193	895	309

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 RMB72,318,000 (2011: RMB79,194,000), and RMB16,660,000 (2011: RMB9,845,000). 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 RMB1,310,353,000 (2011: RMB1,453,559,000) and RMB898,541,000 (2011: RMB861,605,000), 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.

Notes to Financial Statements (continued)

31 December 2012

32. INVESTMENTS (CURRENT)

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Equity investments:		
- At fair value through profit or loss (listed)	145	357
- Available-for-sale (listed), at fair value	-	118,800
	145	119,157
Debt investments:		
- At fair value through profit or loss (listed)	16,723	105,728
	16,723	105,728
Investment funds:		
- Available-for-sale (listed), at fair value	-	7,859
- Available-for-sale (unlisted), at fair value	3,088,678	2,898,639
	3,088,678	2,906,498
Investment products:		
- Available-for-sale (unlisted), at fair value	-	745,550
Designated investment management:		
- Available-for-sale (unlisted), at fair value	-	264,334
	3,105,546	4,141,267

During the year, the increase in fair value in respect of the Group's current available-for-sale investments recognised in other comprehensive income amounted to RMB177,810,000 (2011: decrease in fair value of RMB314,937,000). In addition, upon the disposal of certain current available-for-sale investments during the year, a cumulative gain of RMB61,754,000 (2011: a cumulative loss of RMB391,000) was transferred from equity and recognised in the consolidated income statement.

There was no significant decline in the fair value of any of the above available-for-sale investments during the year. The directors consider that no impairment loss shall be recognized. In 2011, an impairment losses of RMB85,304,000, which included a reclassification from other comprehensive income of RMB85,304,000 had been recognised in the income statement. The Group disposed of those investments in year 2012.

32. INVESTMENTS (CURRENT) (continued)

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

	2012 RMB'000	2011 RMB'000
At 1 January	85,304	-
(Disposals)/ impairment losses recognized		
- Equity investments	(14,977)	14,977
- Investment funds	(24,158)	24,158
- Investment products	(12,307)	12,307
- Designated investment management	(33,862)	33,862
	(85,304)	85,304
At 31 December	-	85,304

As at 31 December 2012, no listed equity investment designated as available-for-sale was restricted for trading over certain periods (2011: RMB3,335,000).

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

	2012		2011 (Restated)	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	94,565	(194,033)	180,530	(182,458)
Portion classified as non-current	4,460	(117,878)	74,346	(180,215)
Current portion	90,105	(76,155)	106,184	(2,243)

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 2012

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 2013, 2014 and 2015 were assessed to be highly effective and a net loss of RMB72,836,000 (net of tax effect) was included in the hedging reserve as follows:

	2012 RMB'000	2011 RMB'000 (Restated)
Total fair value gains/(losses) included in the hedging reserve	18,267	(63,920)
Deferred tax impact on fair value change	(4,567)	15,980
Reclassified from other comprehensive income and recognised in the income statement	(115,382)	(30,015)
Deferred tax on reclassifications to profit or loss	28,846	7,504
Net loss on cash flow hedges	(72,836)	(70,451)

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 hedging purposes and are measured at fair value through profit or loss. Increases in the fair value of non-hedging financial derivatives amounting to RMB1,569,000 (2011: decreases in the fair value of RMB2,244,000) were recognised in the income statement during the year.

Company

	2012		2011	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	94,565	(193,833)	180,530	(180,689)
Portion classified as non-current	4,460	(117,878)	74,346	(180,215)
Current portion	90,105	(75,955)	106,184	(474)

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 Company 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)

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 2013, 2014 and 2015 were assessed to be highly effective and a net loss of RMB72,836,000 (net of tax effect) was included in the hedging reserve as follows:

	2012 RMB'000	2011 RMB'000
Total fair value gains/(losses) included in the hedging reserve	18,267	(63,920)
Deferred tax impact on fair value change	(4,567)	15,980
Reclassified from other comprehensive income and recognised in the income statement	(115,382)	(30,015)
Deferred tax on reclassifications to profit or loss	28,846	7,504
Net loss on cash flow hedges	(72,836)	(70,451)

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 hedging purposes and are measured at fair value through profit or loss. No changes in the fair value of non-hedging financial derivatives were charged to the income statement during the year (2011: RMB2,244,000).

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Cash and bank balances	10,703,038	9,100,889	7,094,110	7,732,690
Time deposits	12,062,787	11,192,952	2,914,275	1,500,000
	22,765,825	20,293,841	10,008,385	9,232,690
Less: Restricted deposits	(624,122)	(669,500)	-	(27,000)
Cash and cash equivalents	22,141,703	19,624,341	10,008,385	9,205,690
Due from the Central Bank	2,580,698	2,950,785	-	-
Total	24,722,401	22,575,126	10,008,385	9,205,690

Notes to Financial Statements (continued)

31 December 2012

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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Pledged deposits secured for:				
Bank loans	-	4,500	-	-
Security deposits	624,122	665,000	-	27,000
	624,122	669,500	-	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

	2012		2011 (Restated)	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Cash and bank balances:				
United States Dollars ("USD")	526,075	3,306,649	224,559	1,411,811
Euro ("EUR")	14,867	123,659	27,160	221,699
Japan Yen ("JPY")	2,479,027	181,091	1,641,867	133,161
Great Britain Pound ("GBP")	859	8,732	2,300	22,338
Hong Kong Dollars ("HKD")	8,015	6,500	23,700	19,214
Vietnam Dong ("VND")	165,337,830	49,601	30,971,471	10,516
Bangladesh Taka ("BDT")	18,299	1,442	32,413	2,493
Indian Rupee ("INR")	469,906	53,522	548,997	65,166
Indonesian Rupiah ("IDR")	162,233,846	105,452	80,275,485	55,779
Ethiopian Birr ("ETB")	26,219	8,973	847	307
Australian Dollar ("AUD")	292	1,908	824	5,278
Singapore Dollar ("SGD")	46	233	44	215
Time deposits:				
USD	52,501	329,989	2,015	12,693
AUD	1,016	6,646	-	-
JPY	670,501	48,979	77,500	6,285
HKD	20,054	16,260	19	15

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

Company

	2012		2011	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Cash and bank balances:				
USD	177,999	1,118,809	139,665	880,016
EUR	424	3,530	1,307	10,668
VND	119,835,836	40,618	5,313,174	1,805
BDT	18,299	1,442	32,413	2,493
INR	23,587	2,696	24,234	2,881
IDR	162,233,846	105,452	80,275,485	55,779
ETB	26,219	8,973	847	307
Time deposits:				
USD	50,000	314,275	-	-

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 2012 comprised deposits of RMB2,546,272,000 (2011: RMB2,927,037,000) and USD5,477,000 (equivalent to RMB34,426,000) (2011: USD3,769,000, equivalent to RMB23,748,000) with the People's Bank of China (the "Central Bank"), including a statutory reserve of 15% and 5% (2011: 16% 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 RMB8,665,801,000 (2011: RMB7,130,558,000) which were deposited with Finance Company according to the prevailing market conditions.

Notes to Financial Statements (continued)

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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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Within 3 months	12,752,683	12,895,491	8,292,432	7,049,374
Over 3 months but within 6 months	3,937,657	2,696,856	1,409,514	1,865,160
Over 6 months but within 1 year	2,974,824	2,999,398	2,866,402	1,849,793
Over 1 year but within 2 years	2,498,839	1,613,074	3,124,774	3,221,113
Over 2 years but within 3 years	1,465,551	726,664	3,107,469	1,493,785
Over 3 years	401,695	368,616	1,020,908	333,615
	24,031,249	21,300,099	19,821,499	15,812,840

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Subsidiaries	-	-	12,256,777	10,036,371
Jointly-controlled entities	365	322	-	-
Associates	377,811	227,948	119,830	14,787
SEC group companies	789,402	562,724	423,790	268,492
Other related companies	124,450	143,131	-	37,068
	1,292,028	934,125	12,800,397	10,356,718

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:

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Within 3 months	840,862	678,811	771,364	-
Over 3 months but within 6 months	1,596,233	1,375,337	257,504	-
Over 6 months but within 1 year	19,712	24,800	-	-
	2,456,807	2,078,948	1,028,868	-

36. BILLS PAYABLE (continued)

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Subsidiaries	-	-	1,008,992	-
Associates	24,857	5,657	-	-
SEC group companies	93,849	143,540	-	-
Other related companies	-	1,027	-	-
	118,706	150,224	1,008,992	-

Bills payable are non-interest-bearing.

37. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Advances from customers	27,612,318	28,267,016	13,092,821	17,557,823
Other payables	3,700,485	3,446,656	418,078	454,865
Government grants	510,538	239,603	30,743	20,482
Dividend payable to non-controlling shareholders	189,524	163,949	5,593	6,427
Accruals	3,887,262	3,446,353	14,014	-
Payroll payable	2,083,043	1,804,416	388,592	436,463
Due to subsidiaries	-	-	147,363	120,062
Due to the ultimate holding company	69,464	76,012	-	276
Due to associates	103,125	207,458	-	956
Due to SEC group companies	38,764	43,522	6,530	6,479
Due to other related companies	431,462	289,711	238,288	60,228
	38,625,985	37,984,696	14,342,022	18,664,061

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 RMB247,903,000 (2011: RMB225,518,000) and RMB89,332,000 (2011: RMB127,773,000) as at 31 December 2012 which are non-trade in nature, the Group's and the Company's balances with related parties as at 31 December 2012 all related to purchase deposits received by the Group and the Company. These 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.

Notes to Financial Statements (continued)

31 December 2012

38. CUSTOMER DEPOSITS

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Deposits from the ultimate holding company	139,513	1,374,637
Deposits from jointly-controlled entities	583	354
Deposits from associates	58,620	157,618
Deposits from SEC group companies	1,052,526	1,080,005
Deposits from other related companies	17	26
Deposits from former subsidiaries	-	648
Deposits from non-related parties	43,150	53,003
	1,294,409	2,666,291

	2012 RMB'000	2011 RMB'000 (Restated)
Repayable:		
On demand	989,659	2,189,541
Within 3 months	138,000	242,750
Over 3 months but within 1 year	166,750	234,000
	1,294,409	2,666,291

The annual interest rates of customer deposits provided to related parties range from 0.35% to 2.80% (2011: 0.50% to 3.50%).

39. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2012			2011 (Restated)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	1.48-6.90	2013	1,218,444	1.48-6.56	2012	162,583
- secured	6.30-6.90	2013	110,000	6.56	2012	30,000
- trade receivables factoring	5.05-6.90	2013	490,000	5.90-6.59	2012	250,000
Current portion of long-term bank loans						
- unsecured	1 year LIBOR + 2.20	2013	1,288,528			-
- unsecured	10% off Over-5-year base rate	2013	186,600	10% off over-5-year base rate	2012	186,600
- unsecured	1-3-year base rate	2013	51,065			-
- unsecured	Over-5-year base rate	2013	41,665	Over-5-year base rate	2012	48,200
- unsecured	2.55-6.23	2013	14,799	2.55-6.23	2012	11,471
- trade receivables factoring	6.10-6.15	2013	16,353			-
- secured	7.50	2013	1,846			-
			3,419,300			688,854
Non-current						
Bank loans						
- unsecured	3 month LIBOR + 1.40	2014	754,260			-
- unsecured	3 month LIBOR + 1.70	2014	659,978			-
- unsecured	10% off over-5-year base rate	2014	136,600	10% off over-5-year base rate	2014	273,200
- unsecured	Over-5-year base rate	2015	125,005	Over-5-year base rate	2015	167,928
- unsecured	1-3-year base rate	2015	76,000			-
- unsecured	5% off 3-5-year base rate	2015	62,989			-
- unsecured	10% off over-5-year base rate	2015	50,000	10% off over-5-year base rate	2015	100,000
- unsecured	6.23	2021	48,555	6.23	2021	55,883
- unsecured	2.55	2015	909	2.55	2015	1,364
- unsecured			-	1 year LIBOR+2.20	2013	1,291,683
- unsecured			-	Over-5-year base rate	2017	156,150
- unsecured			-	1 year LIBOR+3.00	2014	135,274
- secured	3-5-year base rate	2014	95,000			-
- secured			-	7.50	2013	1,911
- trade receivables factoring	6.03-6.15	2015	19,289			-
			2,028,585			2,183,393
			5,447,885			2,872,247

Notes to Financial Statements (continued)

31 December 2012

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

	2012 RMB'000	2011 RMB'000 (Restated)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	3,419,300	688,854
In the second year	1,645,838	1,293,594
In the third to fifth years, inclusive	334,192	677,766
Beyond five years	48,555	212,033
	5,447,885	2,872,247

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

	2012		2011 (Restated)	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Foreign currency borrowing balances:				
USD	456,963	2,872,239	236,254	1,488,614
JPY	80,000	5,844	80,000	6,488
HKD	-	-	52,000	42,156

As at 31 December 2012, certain of the Group's bank loans are secured by mortgages over certain of the Group's buildings and land use rights with a net carrying amount of approximately RMB212,995,000 and RMB20,784,000 (31 December 2011: land use rights with net carrying amounts of RMB914,000) , respectively (notes 15 and 17). In addition, as at 31 December 2012, none of the Group's bank loan are secured by the pledge of certain of the Group's time deposits (31 December 2011: RMB4,500,000) (note 34).

As at 31 December 2012, accounts receivable of a net carrying amount of approximately RMB584,215,000 (31 December 2011: RMB313,911,000) was factored with recourse to obtain certain bank facilities of RMB490,000,000 (31 December 2011: RMB250,000,000) (note 28). In addition, lease receivables with a net carrying amount of approximately RMB39,713,000 (31 December 2011: nil) were factored with recourse to obtain certain bank facilities of RMB35,642,000 (31 December 2011: nil) (note 23).

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

Company

	2012			2011		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	5.04-5.68	2013	1,390,000	4.37-5.90	2012	1,280,000
Current portion of long-term bank loans						
- unsecured	2.55	2013	455	2.55	2012	455
			1,390,455			1,280,455
Non-current						
Bank loans						
- unsecured	2.55	2015	909	2.55	2015	1,364
			1,391,364			1,281,819

	2012 RMB'000	2011 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,390,455	1,280,455
In the third to fifth years, inclusive	909	1,364
	1,391,364	1,281,819

As at 31 December 2012, bank loans amounted to RMB1,390,000,000 (2011: RMB1,280,000,000) 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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000 (Restated)
Floating rate bank loans	1,959,832	2,124,235	1,958,529	2,114,305
Fixed rate bank loans	68,753	59,158	67,954	56,896
	2,028,585	2,183,393	2,026,483	2,171,201

Notes to Financial Statements (continued)

31 December 2012

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 2012						
As previously reported	475,801	1,219,508	129,038	70,000	54,246	1,948,593
Business combinations under common control	218,400	97,070	49,946	-	-	365,416
As restated	694,201	1,316,578	178,984	70,000	54,246	2,314,009
Additional provisions (note 6)	420,887	1,359,323	4,198	2,000	9,037	1,795,445
Reversal during the year (note 6)	(42,699)	(261,589)	-	-	-	(304,288)
Amounts utilised during the year	(314,707)	(673,721)	(124,009)	-	(40,429)	(1,152,866)
At 31 December 2012	757,682	1,740,591	59,173	72,000	22,854	2,652,300
Portion classified as current portion	757,682	1,740,591	11,078	72,000	22,854	2,604,205
Non-current portion	-	-	48,095	-	-	48,095

Company

	Product warranty RMB'000	Onerous contracts RMB'000	Late delivery RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012	576	270,153	-	40,000	310,729
Additional provisions	13,163	57,037	2,000	-	72,200
Reversal during the year	-	(50,644)	-	-	(50,644)
Amounts utilised during the year	-	(117,913)	-	(31,263)	(149,176)
At 31 December 2012	13,739	158,633	2,000	8,737	183,109
Portion classified as current portion	13,739	158,633	2,000	8,737	183,109

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 2012. Provision has been made for these onerous contracts based on the estimated minimum net cost of exiting from the contracts.

40. PROVISIONS (continued)

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 interest is 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 bonds were fully repaid by Finance Company upon maturity on 29 November 2012.

42. OTHER NON-CURRENT LIABILITIES

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Relocation compensation	337,098	28,532	-	-
Defined benefit obligations	296,291	328,200	-	-
Finance lease deposits	180,862	197,124	-	-
Non-interest-bearing loans	136,258	-	-	-
R&D subsidies	47,056	28,440	17,355	14,711
Others	85,026	27,536	-	-
Due to SEC group companies	86	332	-	-
Due to associates	27,207	-	-	-
	1,109,884	610,164	17,355	14,711

Of which, defined benefit obligations are as follows:

	2012 RMB'000
Cashflow information	
-2013	40,319
-2014	41,860
-2015	44,283
-2016	46,527
-2017-2020	272,128
	445,117

Notes to Financial Statements (continued)

31 December 2012

42. OTHER NON-CURRENT LIABILITIES (continued)

The Group implements the investment strategies of retirement benefit plans by using diversified portfolios to maintain the capital of retirement benefit plans and maximize the investment return after inflation. The capital allocation varied from different countries.

The Group considers the following factors on the estimate of long-term investment return:

1) Historical and expected return on investments;
2) Current and future targeted portfolios;
3) Historical and expected actual return on fixed income bonds; and
4) Historical and expected inflation data.

43. SHARE CAPITAL

Shares

	2012 RMB'000	2011 RMB'000
Registered, issued and fully paid:		
A shares of RMB1.00 each	**9,850,715**	9,850,715
H shares of RMB1.00 each	**2,972,912**	2,972,912
Total	**12,823,627**	12,823,627

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

	Number of shares in issue '000	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2011	12,823,627	12,823,627	3,606,286	16,429,913
At 31 December 2011 and 1 January 2012	12,823,627	12,823,627	3,606,286	16,429,913
At 31 December 2012	12,823,627	12,823,627	3,606,286	16,429,913

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.

44. RESERVES (continued)

(a) Group (continued)

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 2012, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB5,323,804,000 (2011: RMB3,894,234,000), out of which a dividend totalling RMB816,865,000 for the year has been proposed on 28 March 2013 (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.

(b) Company

	Note	Capital reserve RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 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)
At 31 December 2011 and 1 January 2012		3,492,552	927,642	3,205,029	7,625,223
Total comprehensive income for the year		(12,834)	-	2,780,384	2,767,550
Appropriation of statutory surplus reserves		-	267,700	(267,700)	-
Proposed 2012 final dividend	13	-	-	(816,865)	(816,865)
Others		10,172	-	-	10,172
As at 31 December 2012		3,489,890	1,195,342	4,900,848	9,586,080

The capital reserve account balance as at 31 December 2012 included the Company's share premium of RMB3,606,286,000 (2011: RMB3,606,286,000) (note 43).

45. BUSINESS COMBINATIONS UNDER COMMON CONTROL

In December 2012, the Group acquired a 100% equity interest in Shanghai Electric Leasing Co., Ltd. ("SELC"), which is mainly engaged in finance leases, from the ultimate holding company at a cash consideration of RMB581,440,000.

In December 2012, the Group acquired a 100% equity interest in Shanghai Electric Insurance Brokers Co., Ltd. ("SEIBC"), which is mainly engaged in provision of insurance and brokerage services, from the ultimate holding company at a cash consideration of RMB13,954,000.

Notes to Financial Statements (continued)

31 December 2012

45. BUSINESS COMBINATIONS UNDER COMMON CONTROL (continued)

SE Corporation, the ultimate holding company, acquired a 100% equity interest in Goss International Corporation ("GIC") from a third party in September 2009 and GIC became the subsidiary of SE Corporation. The goodwill arising from business combination not under common control in year 2009 amounted to RMB137,139,000, full impairment of which was recognized in year 2011. In July 2012, the Group has acquired a 100% equity interest in GIC from SE Corporation at a cash consideration of RMB571,060,000, which was a business combination under common control.

No significant adjustments were made to the net assets and net profit/(loss) of SEIBC, SELC and GIC as a result of the common control combinations to achieve consistency of accounting policies.

The Group has applied merger accounting as prescribed in AG 5 to account for the business combinations under common control. Accordingly, SEIBC, SELC and GIC have been combined since 1 January 2011, the earliest financial period presented, as if the acquisitions had occurred at that time. The comparative amounts in the consolidated financial statements are restated accordingly.

The reconciliation of the effect arising from the business combinations under common control on the consolidated statements of financial position of the Group as at 31 December 2012 and 2011 is as follows:

	The Group excluding SEIBC, SELC and GIC RMB'000	SEIBC, SELC and GIC RMB'000 (note a)	Adjustments RMB'000 (note b)	Consolidated RMB'000
2012				
Assets and liabilities				
Investment in subsidiaries	1,166,454	-	(1,166,454)	-
Other current assets	67,696,380	2,474,862	(496,709)	69,674,533
Cash and cash equivalents	20,154,403	2,131,525	(144,225)	22,141,703
Non-current assets	25,482,989	2,149,106	(748,801)	26,883,294
Customer deposits	(1,438,634)	-	144,225	(1,294,409)
Other current liabilities	(69,413,743)	(3,230,975)	152,436	(72,492,282)
Non-current liabilities	(2,070,059)	(3,264,579)	1,104,057	(4,230,581)
Net assets	41,577,790	259,939	(1,155,471)	40,682,258
Equity				
Equity attributable to owners of the parent				
Issued/paid-up capital	(12,823,627)	(510,000)	510,000	(12,823,627)
Reserves	(17,460,539)	250,061	344,408	(16,866,070)
Proposed final dividends	(816,865)	-	-	(816,865)
	(31,101,031)	(259,939)	854,408	(30,506,562)
Non-controlling interests	(10,476,759)	-	301,063	(10,175,696)
Total equity	(41,577,790)	(259,939)	1,155,471	(40,682,258)

45. BUSINESS COMBINATIONS UNDER COMMON CONTROL (continued)

	The Group excluding SEIBC, SELC and GIC RMB'000 (Restated)	SEIBC, SELC and GIC RMB'000 (note a)	Adjustments RMB'000 (note b)	Consolidated RMB'000
2011				
<u>Assets and liabilities</u>				
Other current assets	64,853,989	3,093,657	(159,269)	67,788,377
Cash and cash equivalents	19,088,481	654,014	(118,154)	19,624,341
Non-current assets	22,772,589	1,712,202	(1,097,864)	23,386,927
Customer deposits	(2,784,445)	-	118,154	(2,666,291)
Other current liabilities	(64,600,296)	(2,182,132)	94,284	(66,688,144)
Non-current liabilities	(1,674,540)	(3,204,713)	1,053,750	(3,825,503)
Net assets	37,655,778	73,028	(109,099)	37,619,707
<u>Equity</u>				
Equity attributable to owners of the parent				
Issued/paid-up capital	(12,823,627)	(510,000)	510,000	(12,823,627)
Reserves	(15,453,840)	556,550	(827,825)	(15,725,115)
Proposed final dividends	(979,725)	-	-	(979,725)
	(29,257,192)	46,550	(317,825)	(29,528,467)
Non-controlling interests	(8,398,586)	(119,578)	426,924	(8,091,240)
Total equity	(37,655,778)	(73,028)	109,099	(37,619,707)

Note a:
The assets and liabilities of GIC represent those reflected on the consolidated financial statements of SE Corporation prior to the business combination.

Note b:
The above adjustments represent adjustments to eliminate the paid-up capital of SEIBC, SELC and GIC against the Group's investment costs in SEIBC, SELC and GIC, the intra-group balances and the cash deposited in Finance Company by SEIBC, SELC and GIC as at 31 December 2012 and 2011, respectively.

An analysis of the cash flows in respect of the business combinations under common control is as follows:

	RMB'000
Cash consideration	(1,166,454)
Other payable	31,239
Net outflow of cash and cash equivalents included in cash flows from financing activities	(1,135,215)

Notes to Financial Statements (continued)

31 December 2012

46. BUSINESS COMBINATIONS NOT UNDER COMMON CONTROL

During the year ended 31 December 2012, the Group acquired the following companies:

In January 2012, the Group acquired a 100% equity interest in Shanghai Nanqiao Transformer Co, Ltd. ("Nanqiao Transformer") at a cash consideration of RMB189,929,000. Nanqiao Transformer is mainly engaged in the production and sale of transformer and electric equipment. The consideration for the acquisition was paid in January 2012.

In January 2012, the Group acquired a 85% equity interest in Shanghai Najie Complete Electric Co., Ltd. ("Shanghai Najie") at a cash consideration of RMB37,552,000. Shanghai Najie is mainly engaged in the production and sale of complete electric equipment and high-and-low voltage equipment. The consideration for the acquisition was paid in January 2012.

In January 2012, the Group acquired a 60% equity interest in Shanghai Feihang Wire and Cable Co., Ltd. ("Shanghai Feihang") at a cash consideration of RMB133,989,000. Shanghai Feihang is mainly engaged in the production and sale of wire, cable and electrical material. The consideration for the acquisition was paid in January 2012.

In January 2012, the Group acquired a 60% equity interest in Shanghai Dahua Electric Equipment Co., Ltd. ("Shanghai Dahua") at a cash consideration of RMB103,418,000. Shanghai Dahua is mainly engaged in the production and sale of high-and-low voltage equipment and transmission & distribution equipment. The consideration for the acquisition was paid in January 2012.

In January 2012, the Group acquired a 50% equity interest in Shanghai Nanhua-Lanling Electrical Co., Ltd. ("Shanghai Nanhua") at a cash consideration of RMB110,921,000. Shanghai Nanhua is mainly engaged in the production and sale of high and low voltage electrical switch cabinet and component. The consideration for the acquisition was paid in January 2012. According to the articles of Shanghai Nanhua, the Group can exert controls over significant financial and operation decisions. As such, Shanghai Nanhua became a subsidiary of the Group.

In May 2012, the Group acquired a 70% equity interest in Shanghai Jiejin Electric New Materials Co., Ltd. ("Shanghai Jiejin") at a cash consideration of RMB12,717,000. Shanghai Jiejin is mainly engaged in the production and sale of cable spare parts and transmission & distribution equipment. The consideration for the acquisition was paid in May 2012.

In May 2012, the Group acquired a 36% equity interest in Wujiang Transformer Co., Ltd. ("Wujiang Transformer") at a cash consideration of RMB63,177,000. Wujiang Transformer is mainly engaged in the production and sale of transformers and complete electric equipment. The consideration for the acquisition was paid in May 2012. According to the articles of Wujiang Transformer, the Group can exert controls over significant financial and operation decisions. As such, Wujiang Transformer became a subsidiary of the Group.

In June 2012, the Group acquired an 80% equity interest in Shanghai Huapu Cable Co., Ltd. ("Shanghai Huapu") at a cash consideration of RMB279,242,000. Shanghai Huapu is mainly engaged in the production and sale of wire, electric and related spare parts. The consideration for the acquisition was paid in June 2012.

In November 2012, the Group acquired a 60% equity interest in Shanghai Ziwen Construction and Engineering Consulting Co., Ltd. ("Shanghai Ziwen") at a cash consideration of RMB7,440,000. Shanghai Ziwen is mainly engaged in bidding agency and supervision for construction. The consideration for the acquisition was paid in November 2012.

46. BUSINESS COMBINATIONS NOT UNDER COMMON CONTROL (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	517,195
Investment properties	16	23,659
Prepaid land lease payments		223,018
Other intangible assets	19	29,823
Investment in an associate		38,312
Other non-current assets		1,190
Deferred tax assets	25	4,632
Inventories		1,611,367
Trade receivables		608,701
Bills receivable		7,465
Prepayments, deposits and other receivables		86,627
Restricted deposits		27,443
Cash and cash equivalents		545,492
Trade payables		(641,056)
Bills payable		(23,288)
Other payables and accruals		(660,420)
Interest-bearing bank and other borrowings		(1,110,600)
Tax payable		(13,321)
Deferred tax liabilities	25	(59,016)
Other non-current liabilities		(7,424)
Total identifiable net assets at fair value		1,209,799
Non-controlling interests		(423,254)
Goodwill on acquisition	18	155,036
Gain on bargain purchases recognised in other income and gains in the consolidated income statement	5	(3,196)
Satisfied by:		
Cash		938,385

An analysis of the cash flows in respect of the acquisitions of a subsidiaries is as follows:

	RMB'000
Cash consideration	(938,385)
Cash and bank balances acquired	572,936
Net outflow of cash and cash equivalents included in cash flows from investing activities	(365,449)

Since the acquisition, the newly acquired subsidiaries contributed RMB4,284,210,000 to the Group's turnover and RMB293,154,000 to the consolidated profit for the year ended 31 December 2012.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB77,076,087,000 and RMB4,398,801,000, respectively.

Notes to Financial Statements (continued)

31 December 2012

47. DEEMED DISPOSAL OF SUBSIDIARIES

2011

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

2012

On 19 October 2011, Shanghai Mechanical & Electrical, a subsidiary of the Group, entered into a capital injection agreement with Guangxi LiuGong Corporation ("Guangxi LiuGong"). Pursuant to the agreement, Guangxi LiuGong would inject RMB611,275,000 to Shanghai Jintai. Upon the completion of the capital injection, the registered capital of Shanghai Jintai would be increased from RMB407,797,000 to RMB832,239,000 and its 51% equity interest would be held by Guangxi LiuGong. In January 2012, the capital injection was completed and Shanghai Jintai was no longer a subsidiary but an associate of the Group. As at 31 December 2011, Shanghai Jintai was recorded as a disposal group held for sale.

On 11 December 2012, Shanghai Mechanical & Electrical, a subsidiary of the Group, entered into a capital injection agreement with Shanghai TAYOR Heavy Industry (Group) Co., Ltd. ("TAYOR"). Pursuant to the agreement, TAYOR would inject RMB11,685,000 to Shanghai Welding Equipment Limited Company ("Welding Equipment"). Upon completion of the capital injection, the registered capital of Welding Equipment would be increased from RMB5,000,000 to RMB15,000,000 and its 66.7% equity interest would be held by TAYOR. As at 31 December 2012, the capital injection was completed and Welding Equipment was no longer a subsidiary but an associate of the Group.

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

	Note	RMB'000
Net assets disposed of:		
Property, plant and equipment		137,661
Prepaid land lease payments		96,463
Other intangible assets		26
Deferred tax assets		9,194
Inventories		330,675
Trade receivables		47,723
Bills receivable		16,999
Prepayments, deposits and other receivables		57,643
Cash and cash equivalents		93,861
Trade payables		(117,390)
Bills payable		(440)
Other payables and accruals		(244,641)
Tax payable		7,296
		435,070
Fair value of the remaining interests after capital injection		590,010
Effect of changes in reserves on:		
Capital reserve		(2,941)
Gain on deemed disposal of subsidiaries	5	157,881

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

	2012 RMB'000
Cash and cash equivalents deemed disposed of	(93,861)
Cash and cash equivalents deposited with Finance Company	78,262
Net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries	(15,599)

48. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2012, the Group disposed of the following subsidiary:

In February 2012, Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd., a subsidiary of Shanghai Mechanical & Electrical, entered into an equity transfer agreement to dispose of its 100% equity interest in Shanghai Refrigerating Machine for a cash consideration of RMB8,356,000. In addition, pursuant to the supplemental agreement, the loss of RMB2,465,000 generated by Shanghai Refrigerating Machine during the period from the transaction benchmark date to the completion date was attributable to the Group. The staff costs of RMB1,249,000 were undertaken by the Group upon the disposal. Thus, the consideration would be RMB4,642,000. The transaction was completed in February 2012. The proceeds from the disposal has been received as at 31 December 2012. As at 31 December 2011, Shanghai Refrigerating Machine was recorded as a disposal group for sale.

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.

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.

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

	Notes	2012 RMB'000	2011 RMB'000
Net assets disposed of:			
Property, plant and equipment		**7,562**	134,745
Prepaid land lease payments	17	-	6,918
Goodwill	18	-	3,627
Other intangible assets	19	-	827
Deferred tax assets	25	-	916
Inventories		**5,238**	83,280
Trade and other receivables		**15,008**	90,003
Bills receivable		**300**	29,482
Cash and cash equivalents		**1,371**	64,799
Trade and other payables		**(24,941)**	(92,533)
Bills payable		-	(300)
Interest-bearing bank and other borrowings		-	(65,000)
Tax payable		-	(283)
		4,538	256,481

Notes to Financial Statements (continued)

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48. DISPOSAL OF SUBSIDIARIES (continued)

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

	Notes	2012 RMB'000	2011 RMB'000
Effect of changes in reserves on:			
Capital reserve		(715)	(233)
Non-controlling interests		(798)	(18,373)
Gain/(loss) on disposal of subsidiaries	5	1,617	(15,180)
		4,642	222,695
Satisfied by:			
Cash		4,642	221,431
Prepayments, deposits and other receivables		-	1,264
		4,642	222,695

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

	2012 RMB'000	2011 RMB'000
Cash consideration	4,642	221,431
Cash and cash equivalents disposed of	(1,371)	(64,799)
Cash and cash equivalents deposited with Finance Company	977	7,200
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	4,248	163,832

49. CONTINGENT LIABILITIES

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Guarantees given to banks in connection with facilities granted to:				
- Subsidiaries	-	-	889,970	1,148,970
- Associates	93,025*	121,253*	-	28,000
	93,025	121,253	889,970	1,176,970

49. CONTINGENT LIABILITIES (continued)

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Guarantees given to banks in connection with facilities utilised by:				
- Subsidiaries	-	-	562,656	955,600
- Associates	93,025	98,752	-	5,499
	93,025	98,752	562,656	961,099
Non-financial guarantee letters issued by Finance Company on behalf of:				
- Associates	15,028	17,800	-	-
- SEC group companies	-	324	-	-
	15,028	18,124	-	-

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

(b) As of 31 December 2012, no financial guarantee was issued by financial institutions for contracts. 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 and the Company provides joint liability guarantee in respect of the financial guarantees.

(c) As of 31 December 2012, non-financial guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB22,676,957,000 (2011: RMB26,010,229,000).

(d) As of 31 December 2012, contingent liabilities amounted to RMB307,206,000 derived from pending lawsuits and arbitration (2011: RMB4,352,000).

As at 31 December 2012, the above contingent liabilities were mainly derived from the lawsuit by Longyuan Construction Group Co., Ltd. ("LCGC") against Shanghai Electric Lingang Heavy Machinery Equipment Co., Ltd. ("SELHMEC") , a subsidiary of the Group, as the first defendant and the Company as the second defendant. LCGC claimed for the construction debt and the relevant overdue interests to be paid by SELHMEC and the Company. So far, the court has engaged an independent firm to appraise the project costs. The directors are of the opinion that the result of the lawsuit and the compensation amount cannot be reasonably assessed at present. As at 31 December 2012, the Company has submitted two bank guarantee letters to the court with amounts of RMB107,206,000 and RMB200,000,000, respectively.

(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 2012.

Notes to Financial Statements (continued)

31 December 2012

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

As at 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Within one year	**66,228**	92,138	**29,082**	30,885
In the second to fifth years, inclusive	**177,546**	171,614	**3,500**	5,147
After five years	**116,374**	143,524	**-**	-
	360,148	407,276	**32,582**	36,032

(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 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Within one year	**65,182**	79,763	**669**	4,090
In the second to fifth years, inclusive	**133,500**	150,992	**-**	669
After five years	**111,206**	138,179	**-**	-
	309,888	368,934	**669**	4,759

51. COMMITMENTS

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:				
In respect of the acquisition of				
- Land and buildings	106,818	348,697	-	-
- Plant and machinery	725,521	619,177	-	-
- Intangible assets	118,901	86,706	-	-
In respect of capital contribution to				
- Subsidiaries	-	-	615,999	573,656
- Associate	177,538	-	177,538	-
- Companies to be established/acquired	-	811,319	-	811,319
	1,128,778	1,865,899	793,537	1,384,975
Authorised, but not contracted for:				
In respect of the acquisition of				
- Land and buildings	-	11,681	-	-
- Plant and machinery	48,828	372,147	-	-
In respect of capital contribution to				
- Subsidiaries	-	-	-	599,918
- Companies to be established/acquired	-	575,809	-	-
- Non-controlling interests to be acquired	-	21,847	-	-
	48,828	981,484	-	599,918
	1,177,606	2,847,383	793,537	1,984,893

52. 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	2012 RMB'000	2011 RMB'000 (Restated)
Purchase of materials from:	(i)		
The ultimate holding company		5	-
Associates		2,313,127	1,985,271
Jointly-controlled entities		1,955	2,831
SEC group companies		1,253,535	1,135,864
Other related companies		1,528,559	1,616,961
		5,097,181	4,740,927

Notes to Financial Statements (continued)

31 December 2012

52. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
Sale of goods to:	(i)		
The ultimate holding company		1,748	11
Associates		678,220	289,338
Jointly-controlled entities		-	1,192
SEC group companies		312,841	377,377
Other related companies		365,427	282,625
		1,358,236	950,543
Construction contracts from:	(i)		
Other related companies		488,943	-
Sale of scraps and spare parts to:	(i)		
Associates		10,328	6,712
Purchases of services from:	(i)		
The ultimate holding company		2	-
SEC group companies		52,253	40,442
Other related companies		103,445	140,605
		155,700	181,047
Provision of services to:	(i)		
The ultimate holding company		2,607	1,782
Associates		60,888	38,446
SEC group companies		3,666	13,108
		67,161	53,336
Purchases of equipment from:	(i)		
The ultimate holding company		-	55
Associates		-	212
SEC group companies		10,289	10,157
Other related companies		113	31
		10,402	10,455

52. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
Disposal of property, plant and equipment to:	(i)		
Associates		27,029	-
Purchases of intangible assets from:	(i)		
SEC group companies		-	525
Disposal of other intangible assets to:	(i)		
The ultimate holding company		-	160,538
Associates		68,789	-
		68,789	160,538
Rental income from:	(ii)		
Associates		15,931	15,696
SEC group companies		100	-
		16,031	15,696
Rental fee to:	(ii)		
The ultimate holding company		28,087	25,938
SEC group companies		7,031	8,001
		35,118	33,939

Notes:

(i) The sales and purchases, services and construction contracts 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 2012, the Group effected the following non-recurring transactions:

(a) In February 2012, Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd., a subsidiary of Shanghai Mechanical & Electrical, entered into an equity transfer agreement to dispose of its 100% equity interest in Shanghai Refrigerating Machine Works to Shanghai Highly Special Refrigeration Equipment Co., Ltd., a subsidiary of SE Corporation , for a cash consideration of RMB8,356,000 at appraisal price. The dispoal gain arsing from the transaction was RMB1,617,000.

(b) In October 2011, the Group and Shanghai General Machinery (Group) Co.,Ltd. ("General Machinery"), a subsidiary of SE Corporation, entered into an equity transfer agreement to acquire a 20% equity interest in KSB Shanghai Pump Co., Ltd. held by General Machinery for a cash consideration of RMB125,134,000 at appraisal price. The transaction was completed in January 2012.

(c) In July 2012, the Group has acquired a 100% equity interest in GIC from SE Corporation for a cash consideration of RMB571,060,000. The transaction was recognized as business combination under common control.

(d) In December 2012, the Group has acquired 100% equity interests in Shanghai Electric Leasing Co., Ltd. and Shanghai Electric Insurance Brokers Co., Ltd. from SE Corporation for cash considerations of RMB581,440,000 and RMB13,954,000, respectively. These transactions were recognized as business combinations under common control.

Notes to Financial Statements (continued)

31 December 2012

52. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

During the year ended 31 December 2012, the Group effected the following non-recurring transaction:

(e) 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 USD870,986,000.

Sales regarding the Project of RMB1,203,925,000 (2011: RMB383,794,000) were recognised during the year. In addition, purchases of RMB14,918,000 (2011: RMB7,608,000) and an agent fee of RMB19,802,000 (2011: RMB11,395,000) were incurred through SE Corporation during the year.

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

As at 31 December 2012, SE Corporation entered into the financial guarantee letter agreements with Industrial and Commertial Bank of China the Bund Branch and China Construction Bank Shanghai Branch respectively, with those letters Goss International Corporation borrowed long-term loans of USD120,000,000 from Industrial and Commercial Bank of China New York Branch and USD105,000,000 from China Constraction Bank Hong Kong Branch (31 December 2011: nil). In addition, SE Corporation has provided corporate guarantee to Goss International Corporation in connection with its long-term loans of USD205,000,000 from China Development Bank as at 31 December 2012 (31 December 2011: USD205,000,000).

As at 31 December 2012, the Group has provided corporate guarantees in connection with facilities totalling RMB93,025,000 (31 December 2011: RMB121,253,000) to related parties, out of which RMB93,025,000 (31 December 2011: RMB98,752,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB15,028,000 (31 December 2011: RMB18,124,000).

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). The Bonds have been repaid this year.

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

	2012 RMB'000	2011 RMB'000 (Restated)
Interest expenses for customer deposits:		
The ultimate holding company	3,388	10,352
Associates	2,270	4,237
Jointly-controlled entities	23	4
SEC group companies	19,218	14,423
Other related companies	2	17
	24,901	29,033
Interest income for loans and bills discounting:		
The ultimate holding company	28,287	15,706
Associates	2,589	1,229
Jointly-controlled entities	2,293	1,673
SEC group companies	103,960	57,352
Other related companies	3,253	17,094
	140,382	93,054

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.

52. RELATED PARTY TRANSACTIONS (continued)

(4) Loans borrowed from other non-financial related parties:

	Start	Maturity	Effective Interest rate (%)	2012 RMB'000	2011 RMB'000 (Restated)
Shanghai Electric Group Hongkong Co., Ltd.	2012.08	2013.01	3.36	62,855	-
Shanghai Electric Group Hongkong Co., Ltd.	2012.08	2013.01	3.21	49,027	-
SE Corporation	2009.10	2014.09	LIBOR+3.00	-	135,274

During the year of 2012, the interest of RMB600,000 (2011: nil) was paid.

The loan granted to GIC from SE Corporation, with the annual interest rate at LIBOR+3.00% and the maturity in September 2014, was repaid in advance in 2012. The aggregate interests of the loan amounted RMB15,488,000 (including RMB3,844,000 of 2012 and RMB5,047,000 of 2011) were exempted by SE Corporation.

(5) 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.

(6) 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.

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

	2012 RMB'000	2011 RMB'000 (Restated)
Fees	750	771
Salaries, bonuses and allowances received from the Group	6,047	6,327
Pension scheme contributed by the Group	268	251
Other social benefit schemes contributed by the Group	252	238
	7,317	7,587

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

Notes to Financial Statements (continued)

31 December 2012

52. RELATED PARTY TRANSACTIONS (continued)

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

	2012 RMB'000	2011 RMB'000 (Restated)
Purchases of equipment, components and technology from an associate:		
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd.	1,694,674	1,262,124
Purchases of equipment, components and technology from other related companies:		
Jointly-controlled entities and associates of SEC group	158,855	229,425
Siemens Aktiengesellschaft	1,228,558	1,217,374
Sales of goods to an associate:		
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd.	18,088	35,746
Sales of goods to other related companies:		
Siemens Aktiengesellschaft	356,787	134,533
Purchases of services from other related companies:		
Jointly-controlled entities and associates of SEC group	1,475	1,145

53. 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

	2012					
	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	-	-	-	1,514,884	-	1,514,884
Lease receivables	-	-	-	2,424,869	-	2,424,869
Equity investments	145	-	-	-	644,646	644,791
Debt investments	16,723	-	10,860	-	385,878	413,461
Trust product	-	-	-	-	376,451	376,451
Trade receivables	-	-	-	20,605,697	-	20,605,697
Discounted bills receivable	-	-	-	881,170	-	881,170
Bills receivable	-	-	-	5,090,174	-	5,090,174
Financial assets included in prepayments, deposits and other receivables	-	-	-	1,387,650	-	1,387,650
Investment funds	-	-	-	-	3,088,678	3,088,678
Derivative financial instruments	-	94,565	-	-	-	94,565
Due from the Central Bank	-	-	-	2,580,698	-	2,580,698
Restricted deposits	-	-	-	624,122	-	624,122
Cash and cash equivalents	-	-	-	22,141,703	-	22,141,703
	16,868	94,565	10,860	57,250,967	4,495,653	61,868,913

53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Group

	2012			
	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	-	-	24,031,249	24,031,249
Bills payable	-	-	2,456,807	2,456,807
Financial liabilities included in other payables and accruals	-	-	4,255,372	4,255,372
Customer deposits	-	-	1,294,409	1,294,409
Interest-bearing bank and other borrowings	-	-	5,447,885	5,447,885
Financial liabilities included in other non-current liabilities	-	-	359,962	359,962
Derivative financial instruments	200	193,833	-	194,033
	200	193,833	37,845,684	38,039,717

Financial assets

Group

	2011 (Restated)					
	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	-	-	-	893,346	-	893,346
Lease receivables	-	-	-	2,132,339	-	2,132,339
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	-	-	-	19,030,147	-	19,030,147
Discounted bills receivable	-	-	-	902,144	-	902,144
Bills receivable	-	-	-	4,510,797	-	4,510,797
Financial assets included in prepayments, deposits and other receivables	-	-	-	1,542,440	-	1,542,440
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	-	-	-	669,500	-	669,500
Cash and cash equivalents	-	-	-	19,624,341	-	19,624,341
	108,079	178,536	10,317	52,255,839	4,705,441	57,258,212

Notes to Financial Statements (continued)

31 December 2012

53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Group

	2011 (Restated)			
	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	-	-	21,300,099	21,300,099
Bills payable	-	-	2,078,948	2,078,948
Financial liabilities included in other payables and accruals	-	-	4,189,966	4,189,966
Customer deposits	-	-	2,666,291	2,666,291
Interest-bearing bank and other borrowings	-	-	2,872,247	2,872,247
Financial liabilities included in other non-current liabilities	-	-	210,348	210,348
Bonds	-	-	1,000,000	1,000,000
Derivative financial instruments	1,769	180,689	-	182,458
	1,769	180,689	34,317,899	34,500,357

Financial assets

Company

	2012				
	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	-	-	1,095,000	-	1,095,000
Equity investments	-	-	-	492,144	492,144
Trust product	-	-	-	376,451	376,451
Trade receivables	-	-	11,402,232	-	11,402,232
Bills receivable	-	-	961,049	-	961,049
Financial assets included in prepayments, deposits and other receivables	-	-	1,148,893	-	1,148,893
Derivative financial instruments	-	94,565	-	-	94,565
Cash and cash equivalents	-	-	10,008,385	-	10,008,385
	-	94,565	24,615,559	868,595	25,578,719

53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Company

	2012		
	Derivative financial instruments designated as hedging instruments RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	-	19,821,499	19,821,499
Bills payable	-	1,028,868	1,028,868
Financial liabilities included in other payables and accruals	-	553,153	553,153
Interest-bearing bank and other borrowings	-	1,391,364	1,391,364
Derivative financial instruments	193,833	-	193,833
	193,833	22,794,884	22,988,717

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

Notes to Financial Statements (continued)

31 December 2012

53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

54. 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 a 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 2012, 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.

54. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

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)

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2012:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investments	142,032	472,800	-	614,832
Debt investments	-	385,878	-	385,878
Investment fund	3,088,678	-	-	3,088,678
Trust product	-	376,451	-	376,451
Equity investments at fair value through profit or loss	145	-	-	145
Debt investments at fair value through profit or loss	16,723	-	-	16,723
Derivative financial instruments	-	94,565	-	94,565
	3,247,578	1,329,694	-	4,577,272

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	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

Notes to Financial Statements (continued)

31 December 2012

54. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Liabilities measured at fair value as at 31 December 2012:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	-	194,033	-	194,033

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 2012, the Company held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2012:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investments	6,419	472,800	-	479,219
Trust product	-	376,451	-	376,451
Derivative financial instruments	-	94,565	-	94,565
	6,419	943,816	-	950,235

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

Liabilities measured at fair value as at 31 December 2012:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	-	193,833	-	193,833

54. 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	-	180,689	-	180,689

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Notes to Financial Statements (continued)

31 December 2012

55. 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
2012			
If RMB weakens against USD	5	149,207	(305,213)
If RMB strengthens against USD	(5)	(149,207)	305,213
If RMB weakens against EUR	5	9,590	9,791
If RMB strengthens against EUR	(5)	(9,590)	(9,791)
If RMB weakens against JPY	5	12,529	23,417
If RMB strengthens against JPY	(5)	(12,529)	(23,417)
If RMB weakens against HKD	5	989	3,818
If RMB strengthens against HKD	(5)	(989)	(3,818)
If RMB weakens against CHF	5	(2)	-
If RMB strengthens against CHF	(5)	2	-
If RMB weakens against GBP	5	1,126	(9,315)
If RMB strengthens against GBP	(5)	(1,126)	9,315
If RMB weakens against ETB	5	336	-
If RMB strengthens against ETB	(5)	(336)	-
If RMB weakens against IDR	5	5,347	-
If RMB strengthens against IDR	(5)	(5,347)	-
If RMB weakens against INR	5	1,818	2,764
If RMB strengthens against INR	(5)	(1,818)	(2,764)
If RMB weakens against VND	5	1,860	491
If RMB strengthens against VND	(5)	(1,860)	(491)
If RMB weakens against BDT	5	91	-
If RMB strengthens against BDT	(5)	(91)	-
If RMB weakens against AUD	5	-	1,139
If RMB strengthens against AUD	(5)	-	(1,139)
If RMB weakens against SGD	5	-	3
If RMB strengthens against SGD	(5)	-	(3)

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(a) Foreign currency risk (continued)

Group (continued)

	Increase/ (decrease) in foreign currency exchange rate %	Increase/ (decrease) in profit after tax RMB'000 (Restated)	Increase/ (decrease) in equity* RMB'000 (Restated)
2011			
If RMB weakens against USD	5	108,078	(417,781)
If RMB strengthens against USD	(5)	(108,078)	417,781
If RMB weakens against EUR	5	13,752	14,252
If RMB strengthens against EUR	(5)	(13,752)	(14,252)
If RMB weakens against JPY	5	2,807	27,899
If RMB strengthens against JPY	(5)	(2,807)	(27,899)
If RMB weakens against HKD	5	(804)	800
If RMB strengthens against HKD	(5)	804	(800)
If RMB weakens against CHF	5	(15)	-
If RMB strengthens against CHF	(5)	15	-
If RMB weakens against GBP	5	(270)	(12,536)
If RMB strengthens against GBP	(5)	270	12,536
If RMB weakens against ETB	5	12	-
If RMB strengthens against ETB	(5)	(12)	-
If RMB weakens against IDR	5	3,212	-
If RMB strengthens against IDR	(5)	(3,212)	-
If RMB weakens against INR	5	2,017	3,114
If RMB strengthens against INR	(5)	(2,017)	(3,114)
If RMB weakens against VND	5	383	455
If RMB strengthens against VND	(5)	(383)	(455)
If RMB weakens against BDT	5	114	-
If RMB strengthens against BDT	(5)	(114)	-
If RMB weakens against AUD	5	-	1,166
If RMB strengthens against AUD	(5)	-	(1,166)
If RMB weakens against SGD	5	-	109
If RMB strengthens against SGD	(5)	-	(109)

* Excluding retained profits

Notes to Financial Statements (continued)

31 December 2012

55. 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
2012			
If RMB weakens against USD	5	83,957	(274,005)
If RMB strengthens against USD	(5)	(83,957)	274,005
If RMB weakens against EUR	5	3,318	-
If RMB strengthens against EUR	(5)	(3,318)	-
If RMB weakens against ETB	5	336	-
If RMB strengthens against ETB	(5)	(336)	-
If RMB weakens against IDR	5	5,347	-
If RMB strengthens against IDR	(5)	(5,347)	-
If RMB weakens against INR	5	101	-
If RMB strengthens against INR	(5)	(101)	-
If RMB weakens against VND	5	1,348	-
If RMB strengthens against VND	(5)	(1,348)	-
If RMB weakens against BDT	5	91	-
If RMB strengthens against BDT	(5)	(91)	-
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)	-

* Excluding retained profits

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(b) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments and trust product classified as investments at fair value through profit or loss and available-for-sale investments (notes 24 and 32) as at 31 December 2012. The Group's listed investments are listed on the Shenzhen Stock Exchange ("SZSE"), the Shanghai Stock Exchange ("SHSE") and the Hong Kong Stock Exchange and are valued at quoted market prices at the end of the reporting period.

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:

	2012			2011		
	31 December	High	Low	31 December	High	Low
SZSE A-share Index	920	1,057	766	907	1,373	889
SHSE A-share Index	2,376	2,578	2,052	2,304	3,202	2,269
Hong Kong-Hang Seng Index	22,657	22,667	18,186	18,434	24,420	16,250

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
2012			
Equity investments:			
Shenzhen – Available-for-sale	1,715	-	64
Shanghai – Available-for-sale	613,117	-	23,202
– At fair value through profit or loss	145	5	-
Trust product:			
Hongkong – Available-for-sale	376,451	-	14,117
2011 (Restated)			
Equity investments:			
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	-
Trust product:			
Hongkong – Available-for-sale	380,154	-	14,256

* Excluding retained profits

(c) Interest rate risk

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

Notes to Financial Statements (continued)

31 December 2012

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

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

Debt investments

Group

	2012		
	At fair value through profit or loss RMB'000	Held-to-maturity RMB'000	Available-for-sale RMB'000
1 to 5 years	16,723	10,860	153,976
More than 5 years	-	-	231,902
Total	16,723	10,860	385,878
Effective interest rate (% per annum)	0.50-1.10	5.43	5.13-8.50

	2011 (Restated)		
	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

Other financial assets

Group

	2012		
	Loans receivable RMB'000	Discounted bills receivable RMB'000	Time deposits RMB'000
Within 1 year	1,532,800	881,170	12,062,787
Total	1,532,800	881,170	12,062,787
Effective interest rate (% per annum)	5.04-7.08	4.20-6.30	0.35-4.80

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets (continued)

Group (continued)

	2011 (Restated)		
	Loans receivable RMB'000	Discounted bills receivable RMB'000	Time deposits RMB'000
Within 1 year	909,001	902,144	11,192,952
Total	909,001	902,144	11,192,952
Effective interest rate (% per annum)	5.23-6.65	4.56-6.90	0.35-6.43

Financial liabilities

Group

	2012	
	Interest-bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	1,568,314	1,294,409
1 to 5 years	1,959,832	-
Total	3,528,146	1,294,409
Effective interest rate (% per annum)	1.70-6.55	0.50-3.50

	2011 (Restated)		
	Bonds RMB'000	Interest-bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	1,000,000	234,800	2,666,291
1 to 5 years	-	1,968,087	-
More than 5 years	-	156,150	-
Total	1,000,000	2,359,037	2,666,291
Effective interest rate (% per annum)	4.85	2.55-7.05	0.50-3.50

Notes to Financial Statements (continued)

31 December 2012

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets

Company

	2012	
	Loans receivable RMB'000	Time deposits RMB'000
Within 1 year	1,095,000	2,914,275
Effective interest rate (% per annum)	0.00	3.10-3.30

	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

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 or equity (through the impact on floating rate financial assets and liabilities):

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB'000	Increase/ (decrease) in equity* RMB'000
2012			
RMB	15	6,318	338
RMB	(15)	(6,318)	(338)
2011			
RMB	15	5,495	141
RMB	(15)	(5,495)	(141)

* Excluding retained profits

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 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.

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(a) Credit risk (continued)

The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 49 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 9.4% (2011: 8.9%) of the Group's trade receivables as at 31 December 2012.

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 and lease receivables impairment assessment include whether any payments of principal or interest are overdue or whether there is 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.

Group

	2012					
	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	19,586,788	2,394,295	1,859,089	191,077	-	24,031,249
Bills payable	-	840,862	1,615,945	-	-	2,456,807
Financial liabilities included in other payables and accruals	3,527,241	538,607	189,524	-	-	4,255,372
Customer deposits	989,969	140,110	169,262	-	-	1,299,341
Interest-bearing bank and other borrowings	-	1,577,826	1,926,890	2,093,708	58,387	5,656,811
Financial liabilities included in other non-current liabilities	-	-	-	359,962	-	359,962
Derivative financial instruments	-	688	75,467	117,878	-	194,033
Financial guarantee contracts	-	-	-	93,025	-	93,025
	24,103,998	5,492,388	5,836,177	2,855,650	58,387	38,346,600

Notes to Financial Statements (continued)

31 December 2012

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

Group (continued)

	2011 (Restated)					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	15,231,657	5,153,246	726,240	188,956	-	21,300,099
Bills payable	-	678,811	1,400,137	-	-	2,078,948
Financial liabilities included in other payables and accruals	3,436,489	589,528	163,949	-	-	4,189,966
Customer deposits	2,189,644	245,019	237,411	-	-	2,672,074
Bonds	-	-	1,000,000	-	-	1,000,000
Interest-bearing bank and other borrowings	-	68,907	687,067	2,083,915	225,959	3,065,848
Financial liabilities included in other non-current liabilities	-	-	-	210,348	-	210,348
Derivative financial instruments	-	1,769	474	180,215	-	182,458
Financial guarantee contracts	-	-	10,500	110,753	-	121,253
	20,857,790	6,737,280	4,225,778	2,774,187	225,959	34,820,994

Company

	2012					
	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	19,821,499	-	-	-	-	19,821,499
Bills payable	-	771,364	257,504	-	-	1,028,868
Financial liabilities included in other payables and accruals	547,560	-	5,593	-	-	553,153
Interest-bearing bank and other borrowings	-	474,430	945,231	936	-	1,420,597
Derivative financial instruments	-	688	75,267	117,878	-	193,833
Financial guarantee contracts	-	-	10,000	879,970	-	889,970
	20,369,059	1,246,482	1,293,595	998,784	-	23,907,920

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

Company (continued)

	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
Derivative financial instruments	-	-	474	180,215	-	180,689
Financial guarantee contracts	-	-	177,589	757,470	269,000	1,204,059
	16,364,296	23,062	1,496,700	939,124	269,000	19,092,182

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 2012 and 31 December 2011.

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

	2012 RMB'000	2011 RMB'000 (Restated)
Interest-bearing bank and other borrowings	**5,447,885**	2,872,247
Bonds	**-**	1,000,000
Net debt	**5,447,885**	3,872,247
Total equity	**40,682,258**	37,619,707
Total equity and net debt	**46,130,143**	41,491,954
Gearing ratio	**11.8%**	9.3%

Notes to Financial Statements (continued)

31 December 2012

56. EVENTS AFTER THE REPORTING PERIOD

(1) Pursuant to Zheng Jian Xu Ke No. [2012] 1703 from China Securities Regulatory Commission, the Company was approved to issue corporate bonds publicly with an aggregate amount up to RMB4 billion. On 27 February 2013, the first tranche of the corporate bonds (the "Corporate Bonds") with an aggregate amount of RMB2 billion was issued. The issuance of the Corporate Bonds has been completed on 1 March 2013. The first tranche has two series, including bonds with a three-year duration and a coupon rate of 4.5% at an offering size of RMB0.4 billion; and bonds with a five-year duration and a coupon rate of 4.9% at an offering size of RMB1.6 billion.

(2) Details of the final 2012 dividend proposal are contained in note 13 to the financial statements.

57. COMPARATIVE AMOUNTS

Due to the business combinations under common control, the comparative amounts of the financial statements have been restated to consolidate the results of relevant subsidiaries from the earliest financial period presented.

58. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2013.