

Special Statement of Shanghai Mechanical & Electrical Industry Co., Ltd. on Use of Non-business Funds by Other Parties and Other Capital Flow in 2009

Report code: Anyong-Huaming-Zhuan-Zi (2010) No. 60464432_B02

Shanghai Mechanical & Electrical Industry Co., Ltd.:

Upon the authorization, we audited the financial statements of Shanghai Mechanical & Electrical Industry Co., Ltd. (hereinafter referred to as "the Company") and its subsidiaries, which included the consolidated and the Company's Balance Sheet dated December 31st, 2009, 2009 Consolidated and the Company's Profit Statement, 2009 Statement of Changes in Stockholder's Equity, Cash Flow statement of 2009 and Financial Statement Footnotes. We issued an audit report with no reserved opinions on April 7th 2010 (Report code: Anyong-Huaming-Zhuan-Zi (2010) No. 60464432_B16). The audit was conducted in accordance with "The Auditing Standards of China's Certified Accountants" issued by Financial Ministry of People's Republic of China.

The special statement is based on the 2009 financial and accounting materials of the relevant companies within the scope of consolidated statements (hereinafter referred to as "the companies within the scope of consolidation"), and it explains the non-operating fund used by the companies within the scope of consolidation on and other related capital flow of the year. The companies within the scope of consolidation shall be responsible for the completeness, truthfulness, and legitimacy of the materials above. Except for the auditing procedure for issuing the audit report on the 2009 annual financial and accounting statements above, we do not perform any other extra audit procedures.

In this special statement, the following terms refer to:

"Non-operating Fund used by Other Parties" refers to the expenses, such as salaries, benefits, insurance, and advertisement, paid in advance by the companies within the scope of consolidation for Major shareholders or its subsidiaries; or capital used to repay in advance the debts of Major shareholders or its subsidiaries; or capital lent, directly or indirectly, to Major shareholders or its subsidiaries with or without payments, or debts formed by security provided to Major shareholders or its subsidiaries; other capital used by Major shareholders or its subsidiaries when there is no equal goods or services transfer.

"Major shareholders or its Subsidiaries" refer to the controlling shareholders or actual controller and its subsidiary, former controlling shareholders or actual controller and its subsidiary of the listed company. "Subsidiaries" mean the enterprise directly controlled by the controlling shareholders or actual controller of the list company, but it does not include the list company and the enterprise directly controlled by the list company. The amount of provision for impairment loss made or written-off non-operating capital by the Company is not conducted from the balance of the fund used by other parties.

“Other Related Capital Flow” means the operating capital flow between the companies within the scope of consolidation and “Major shareholders or its subsidiaries”, and the non-operating fund flow among the companies within the scope of consolidation and “the subsidiaries and affiliated enterprises of the listed company”, “related natural persons and its affiliated enterprises”, and “other related persons and its affiliated enterprises”. Except the differences in the debt objective, the content of “Non-operating Fund Flow” is the same as the “Non-operating Fund used by Other Parties”. Those, other than “Non-operating Fund Flow”, are treated as “Operating Fund Flow”.

I. Basis of Compiling

This special statement is compiled in accordance with the regulations of the Article One of “Circular on Certain Issues Regarding Regulating Capital Flow between listed companies and Related Parties and Regarding Outward Guarantee Provided by Listed Companies” (Article 1 of Zheng Jian Fa [2003] No. 56, Article 9 of “Notice about Ensuring the Work of 2009 Annual Report of Listed Companies” by Shanghai Stock Exchange and the Appendix One of “2005 Annual Report Work memorandum No. 5 - Analysis on Regulations of Rules of Annual Report (II)” (revised on April 2006).

In compiling the appendixes of this special statement, we adopted the following measures:

- (1) The non-operating receivables and payments in advance between the companies within the scope of consolidation which are netted off in the Company’s consolidated accounting statement, should not be netted off in this special statement and be separately listed in the part of “the subsidiaries and affiliated enterprises of the listed company” of the appendix.
- (2) The non-business fund occupation and other related fund transfers within the range of the Company’s consolidated statements are listed in the special statement appendix, both balances and amounts occurred.
- (3) When the use of non-operating fund and other capital flow occurred between different companies within the scope of consolidation and the same party, if the accounts and business content are the same, then the amounts will be added up and listed in one line; if the accounts and business content are different, then the amounts should be listed as different lines.
- (4) The scope of related parties in this special statement is determined according to “Stock Listing Rules of Shanghai Stock Exchange” (revised in September, 2008), so this might differ from that of “Disclosure of Relationship with Related Parties and Related Transactions” listed in the appendix of the Company’s 2009 Consolidated Accounting Statement that we audited.

II. Till December 31st 2009, the non-operating fund used by the companies within consolidation scope and other capital flow

Please refer to the appendix “Summary Statement of Shanghai Mechanical & Electrical Industry Co., Ltd. on Use of Non-operating Fund by Other Parties and Other Capital Flow in 2009”.

III. Usage of this Special Statement

This special statement is only used for the Company’s submittal to the Listed Companies Department of Shanghai Stock Exchange. Without our written permission, the statement should not be published or referenced publicly in any form or for any purposes, unless the following context specifies otherwise.

The Company or the Listed Companies Department of Shanghai Stock Exchange can use

this special statement and relevant materials to compile and disclose the Company's 2009 annual report and its non-operating fund used by other parties and other related capital flow on the website of Shanghai Stock Exchange (<http://www.sse.com.cn>) in the appendix, but Anyong-Huaming Accounting Firm and the certified public accountant who signed the Company's audit report on its 2009 accounting statement and this special statement are not responsible for the process and the result of this compiling conducted by the Company or Shanghai Stock Exchange. The information that is involved with the Company's non-operating fund used by other parties and other related capital flow and is discloses on the website of Shanghai Stock Exchange with the Company's 2009 annual report shall not contain any indication or remark in any form that could lead the users to believe that the content has been audited or reviewed or ensured by Anyong-Huaming Accounting Firm.

Enclosed: Summary Statement of Shanghai Mechanical & Electrical Industry Co., Ltd. on Use of Non-operating Fund by Other Parties and Other Capital Flow in 2009

Anyong-Huaming Accounting Firm

Beijing China

China Certified Accountant

China Certified Accountant

Zhou Lin

Xu Lele

April 7th, 2010

Appendix

Summary Statement of Shanghai Mechanical & Electrical Industry Co., Ltd. on Use of Non-operating Fund by Other Parties and Other Capital Flow in 2009

Unit: Ten Thousand Yuan

| Non-business | Name of Capital Occupant | Related Relationship between Occupant and Listed Company | Account of Listed Company | Balance of Capital Occupied at the Beginning of 2009 | Happening Amount of Capital Occupied in 2009 (excluding Interests) | Interests Arising from Capital Occupied in 2009 (If Any) | Accumulated Happening Amount of Repaid Capital in 2009 | Balance of Capital Occupied at the End of 2009 | Reasons for Capital Occupying | Nature of Occupying |
|--|--|--|---------------------------|--|--|--|--|--|-------------------------------|--------------------------------------|
| Current large shareholders and affiliates | | | | | | | | | | |
| Subtotal | - | - | - | - | - | - | - | - | | |
| Former Major Shareholders and its Affiliated Enterprises | | | | | | | | | | |
| Subtotal | - | - | - | - | - | - | - | - | | |
| Total | - | - | - | - | - | - | - | - | | |
| Other Associated Financial Transfer | Name of Enterprise in Capital Flow | Related Relationship between the Enterprise in Capital Flow and Listed Company | Account of Listed Company | Balance of Capital Flow at the Beginning of 2009 | Happening Amount of Capital Flow in 2009 (excluding Interests) | Interests Arising from Capital Flow in 2009 (If Any) | Accumulated Happening Amount of Repaid Capital in 2009 | Current Account Balance at the End of 2008 | Reasons for Capital Occupying | Nature of Capital Flow |
| Major Shareholder and its Affiliated Enterprise | Shanghai Electric Group Co., Ltd. | Controlling Shareholder | Payment receivable | - | 22.72 | | 13.32 | 9.40 | Sales | Capital Flow by Operating Activities |
| | Shanghai Measuring Tool Import& Export Corp | Subsidiary of Final Controller | Advanced payment | 13.40 | - | | 13.40 | - | Purchasing | Capital Flow by Operating Activities |
| | Shanghai Blower works Co., Ltd. | Subsidiary of Final Controller | Payment receivable | - | 7.40 | | 6.66 | 0.74 | Sales | Capital Flow by Operating Activities |
| | Shanghai Shiyin Machinery Co., Ltd. | Subsidiary of Final Controller | Payment receivable | 223.67 | 229.64 | | 407.15 | 46.16 | Sales | Capital Flow by Operating Activities |
| | Shanghai Electric Equipment Rental Co., Ltd. | Subsidiary of Final Controller | Payment receivable | 302.86 | 19,695.50 | | 19,970.50 | 27.86 | Sales | Capital Flow by Operating Activities |
| | Shanghai | Subsidiary of | Advanced | 15.80 | 162.38 | | 178.18 | - | Purchasing | Capital Flow |

| | | | | | | | | | | |
|--|---|---------------------------------------|--------------------|-------|-------|--|-------|-------|-------|--------------------------------------|
| | Electric International Economic & Trading Co., Ltd. | Controlling Shareholder | payment | | | | | | | by Operating Activities |
| | Shanghai Heavy Machinery Plant Company Limited | Subsidiary of Controlling Shareholder | Notes receivable | - | 40.00 | | - | 40.00 | Sales | Capital Flow by Operating Activities |
| | Shanghai Electric LinGang Heavy Machinery Co., Ltd. | Subsidiary of Controlling Shareholder | Payment receivable | 24.78 | 49.60 | | 33.12 | 41.26 | Sales | Capital Flow by Operating Activities |

Appendix (Continued)

Summary Statement of Shanghai Mechanical & Electrical Industry Co., Ltd. on Use of Non-operating Fund by Other Parties and Other Capital Flow in 2009

Unit: Ten Thousand Yuan

| Other Associated Financial Transfer | Name of Enterprise in Capital Flow | Related Relationship between the Enterprise in Capital Flow and Listed Company | Account of Listed Company | Balance of Capital Flow at the Beginning of 2009 | Happening Amount of Capital Flow in 2009 (excluding Interests) | Interests Arising from Capital Flow in 2009 (If Any) | Accumulated Happening Amount of Repaid Capital in 2009 | Current Account Balance at the End of 2008 | Reasons for Capital Occupying | Nature of Capital Flow |
|---|---|--|---------------------------|--|--|--|--|--|-------------------------------|--------------------------------------|
| Major Shareholder and its Affiliated Enterprise | Shanghai Turbine Co., Ltd. | Subsidiary of Controlling Shareholder | Payment receivable | 7.02 | 32.50 | | 35.73 | 3.79 | Sales | Capital Flow by Operating Activities |
| | Shanghai Electrical Automation R&D Institute Ltd. Inc. | Subsidiary of Controlling Shareholder | Payment receivable | - | 18.20 | | 18.20 | - | Sales | Capital Flow by Operating Activities |
| | Shanghai Rail Traffic Equipment Development Co., Ltd. | Subsidiary of Controlling Shareholder | Payment receivable | 159.34 | 191.35 | | 101.91 | 248.78 | Sales | Capital Flow by Operating Activities |
| | Shanghai Environment Protection Complete Engineering Co., Ltd | Subsidiary of Controlling Shareholder | Payment receivable | 10.29 | 69.10 | | 79.39 | - | Sales | Capital Flow by Operating Activities |
| | Shanghai Electric Wind Co., Ltd. | Subsidiary of Controlling Shareholder | Payment receivable | - | 29.35 | | 29.35 | - | Sales | Capital Flow by Operating Activities |
| | SEC-IHI Power Generation Environmental Protection Co., Ltd. | Subsidiary of Controlling Shareholder | Payment receivable | 7.35 | - | | 5.52 | 1.83 | Sales | Capital Flow by Operating Activities |
| | Shanghai Heavy Machinery Plant Company Limited | Subsidiary of Controlling Shareholder | Payment receivable | 107.68 | 303.17 | | 325.03 | 85.82 | Sales | Capital Flow by Operating Activities |
| | Shanghai Heavy Machinery Foundry | Subsidiary of Controlling Shareholder | Payment receivable | 14.85 | 50.26 | | 65.11 | - | Sales | Capital Flow by Operating Activities |
| | SEC Shanghai Power Machinery | Subsidiary of Controlling | Payment receivable | - | 735.23 | | 503.18 | 232.05 | Sales | Capital Flow by |

| | | | | | | | | | | |
|--|--|---------------------------------------|--------------------|--------|----------|--|----------|-------|-------|--------------------------------------|
| | Limited Company | Shareholder | | | | | | | | Operating Activities |
| | Shanghai No. 1 Machine Tool Works Ltd. | Subsidiary of Controlling Shareholder | Payment receivable | 6.01 | - | | - | 6.01 | Sales | Capital Flow by Operating Activities |
| | Shanghai Hoisting and Conveying Machinery Co., Ltd. | Subsidiary of Controlling Shareholder | Payment receivable | 27.47 | - | | 15.00 | 12.47 | Sales | Capital Flow by Operating Activities |
| | Shanghai Guanghai Printing Machine Co., Ltd. * Note 1 | Subsidiary of Controlling Shareholder | Payment receivable | 424.10 | 2,236.79 | | 2,660.89 | - | Sales | Capital Flow by Operating Activities |

Appendix (Continued)

Summary Statement of Shanghai Mechanical & Electrical Industry Co., Ltd. on Use of Non-operating Fund by Other Parties and Other Capital Flow in 2009

Unit: Ten Thousand Yuan

| Other Associated Financial Transfer | Name of Enterprise in Capital Flow | Related Relationship between the Enterprise in Capital Flow and Listed Company | Account of Listed Company | Balance of Capital Flow at the Beginning of 2009 | Happening Amount of Capital Flow in 2009 (excluding Interests) | Interests Arising from Capital Flow in 2009 (If Any) | Accumulated Happening Amount of Repaid Capital in 2009 | Current Account Balance at the End of 2008 | Reasons for Capital Occupying | Nature of Capital Flow |
|--|---|--|---------------------------|--|--|--|--|--|-------------------------------|--------------------------------------|
| | Shanghai Electric Group Finance Company Ltd. | Subsidiary of Controlling Shareholder | Interest receivable | 388.88 | 210.84 | | 388.88 | 210.84 | Deposit Interest | Capital Flow by Operating Activities |
| | Shanghai Electric Equipment Rental Co., Ltd. | Subsidiary of Final Controller | Other account receivable | - | 1,353.10 | | - | 1,353.10 | Rental deposit | Capital Flow by Operating Activities |
| | Shanghai Electric International Economic & Trading Co., Ltd. * Note 2 | Subsidiary of Controlling Shareholder | Other account receivable | - | 474.66 | | - | 474.66 | Historical reasons | Non-operating Occupying |
| Subsidiary and Affiliated Enterprise of Listed Company | Shanghai Welding Equipments & Consumables Co., Ltd. | First Class Subsidiary of Parent Company | Other account receivable | 233.21 | - | | - | 233.21 | Capital Flow | Non-operating Occupying |
| | Shanghai Refrigerating Factory Co., Ltd. | First Class Subsidiary of Parent Company | Other account receivable | 412.07 | - | | 150.00 | 262.07 | Capital Borrowing | Non-operating Occupying |
| | Shanghai Jintai Engineering Machinery Co., Ltd. | First Class Subsidiary of Parent Company | Other account receivable | 5,000.00 | - | | 5,000.00 | - | Investment Advances | Non-operating Occupying |
| | Jiangxi Green Continent Wood-based Panel Co., Ltd. | Second Class Subsidiary of Parent Company | Other account receivable | 251.45 | - | | 251.45 | - | Advance Money for Others | Non-operating Occupying |
| Related Natural Person and its Controlled Legal Person | | | | | | | | | | |
| Related Party and its Affiliated | Shanghai Zhonggang Welding Materials | With Shareholdings below 50% | Other account receivable | 1,037.09 | - | | 143.91 | 893.18 | Capital Borrowing | Non-operating Occupying |

| | | | | | | | | | | |
|------------|-----------|--|--|----------|-----------|--|-----------|----------|--|--|
| Enterprise | Co., Ltd. | | | | | | | | | |
| Total | | | | 8,667.32 | 25,911.79 | | 30,395.88 | 4,183.23 | | |

* Note 1: During this year, the Company acquired 50% of Shanghai Guanghua Printing Machinery Co., Ltd.'s equity through merger under different control and added it to its merger scope. Since then, the transactions between the Company and Shanghai Guanghua Printing Machinery Co., Ltd. have not been included in the above table.

* Note 2: This transaction is from the merged Shanghai Guanghua Printing Machinery Co., Ltd., and it is retrieved after the report date.

This table was approved by the following persons on April 7th, 2010:

Legal representative: Xu Jianguo Person in charge of accounting: Si Wenpei Accounting manager: Zou Xiaolu