

**SHANGHAI MECHANICAL & ELECTRICAL
INDUSTRY CO., LTD.**

600835

2009 Annual Report

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I. Important Statement

(I) The Board of Directors, the Supervisory Board, as well as the directors, supervisors and senior management of Shanghai Mechanical & Electrical Industry Co., Ltd. (hereinafter referred to as “the Company” or “SMEIC”) hereby undertake that the information and data contained in this report are free of false records, misleading statements or significant omissions and we shall be individually and jointly liable for the authentication, accuracy and integrity of the contents in this report.

(II) All members of the Board of Directors of the Company have attended the Board meeting, except:

Name	Position	Reason for not attending the Board meeting	Name of assignee
Mr. Xu Jianguo	Chairman of the Board	On a business trip	Mr. Zhu Bin

(III) The independent auditor, Ernst & Young Hua Ming, has issued an unqualified opinion on the financial report of the Company.

(IV)

Chairman of the Board	Mr. Xu Jianguo
Financial Controller	Mr. Si Wenpei
Accounting Supervisor	Ms. Zou Xiaolu

The Chairman of the Board, Mr. Xu Jianguo, the Financial Controller, Mr. Si Wenpei and the Accounting Supervisor, Ms. Zou Xiaolu hereby undertake that the financial report in this annual report is true and complete.

(V) There was no fund used by the controlling shareholders or their related companies for non-business purposes.

(VI) There was no non-compliance with the Company’s policy in relation to granting guarantee to external parties.

II. General Information

(I) Corporate profile

Company’s statutory Chinese name	上海机电股份有限公司
Chinese abbreviation	上海机电
Company’s statutory English name	SHANGHAI MECHANICAL & ELECTRICAL INDUSTRY CO., LTD.
English abbreviation	SMEIC
Legal representative	Mr. Xu Jianguo

(II) Contacts

	Board Secretary	Representative on securities matters
Name	Mr. Si Wenpei	Mr. Xing Huihua
Address	9/F 1286 Minsheng Road, Pudong District, Shanghai	9/F 1286 Minsheng Road, Pudong District, Shanghai
Telephone	(021) 68547168	(021) 68547168
Fax	(021) 68547170	(021) 68547550
Email	shjddm@chinasec.cn	xhh@chinasec.cn

(III) Basic information

Registered address	128 Zhangjiabang Road, Pudong District, Shanghai
Registered address zip code	200122
Office address	9/F 1286 Minsheng Road, Pudong District, Shanghai
Office address zip code	200135
Website	www.chinasec.cn
Email	sec@chinasec.cn

(IV) Publication of the annual report

Official newspapers	China Securities Journal, Shanghai Securities Journal, Hong Kong Wen Hui Post
Official website	www.sse.com.cn
Official custodian	Corporate Securities Department

(V) Stock information

Stock information			
Categories	Stock exchange	Stock abbreviation	Stock code
A share	Shanghai Stock Exchange	SMEIC	600835
B share	Shanghai Stock Exchange	SMEIC B	900925

(VI) Other information

Date of initial registration	24 February 1994	
Place of initial registration	2 Jianping Road, Pudong District, Shanghai	
Initial changes	Date of amendment	29 August 2007
	Amended place of registration	128 Zhangjiabang Road, Pudong District, Shanghai
	Corporate business license	310000400075814
	Tax registration number	310115607262023
	Organization code	60726202-3
Name of auditors	Ernst & Young Hua Ming	
Address of auditors	23/F, The Centre, 989 Changle Road, Shanghai, China	

III. Financial Highlights

(I) Key financial information

(Unit: RMB)

	Amount
Operating profit	864,579,468.21
Profit before taxation	942,498,832.43
Net profit attributable to shareholders of the listed company	465,741,408.69
Net profit attributable to shareholders of the listed company excluding non-recurring gain/loss	498,809,944.67
Net cash flows from operating activities	2,028,598,332.17

(II) Non-recurring gain/loss

(Unit: RMB)

	Amount
Loss on disposals of non-current assets	-10,151,040.37
Government grants and subsidies (excluding those standard government grants and subsidies closely related to the Company's business)	-35,061,260.10
Restructuring expenses, including compensation paid to employees and integration charges	78,476,704.57
Reversal of specific provision for accounts receivable	-7,802,074.80
Other non-operating income and expenses	-17,296,081.75
Impact on income tax	8,785,454.89
Impact on equity of minority shareholders (net of tax)	16,116,833.54
Total	33,068,535.98

(III) Key accounting data and financial indicators in the recent three years

(Unit: RMB)

Key accounting data	2009	2008	Increase/ decrease (%)	2007
Revenue	10,986,235,317.82	10,447,383,090.46	5.16	9,186,192,504.12
Profit before taxation	942,498,832.43	1,120,424,235.63	-15.88	1,032,189,683.06
Net profit attributable to shareholders of the listed company	465,741,408.69	646,604,833.81	-27.97	605,580,532.10
Net profit attributable to shareholders of the listed company, excluding non-recurring gain/loss	498,809,944.67	488,160,825.97	2.18	598,517,815.32
Net cash flow from operating activities	2,028,598,332.17	516,497,097.97	292.76	1,057,878,881.39
	31 December 2009	31 December 2008	Increase/ decrease (%)	31 December 2007
Total assets	13,111,628,464.45	10,476,999,796.84	25.15	10,026,108,121.42
Shareholders' equity	4,950,057,722.39	4,564,542,108.20	8.45	4,064,286,599.12

Key financial indicators	2009	2008	Increase/ decrease (%)	2007
Basic EPS (RMB)	0.46	0.63	-26.98	0.59
Diluted EPS (RMB)	0.46	0.63	-26.98	0.59
Basic EPS, excluding non-recurring gain/loss	0.49	0.48	2.08	0.58
Weighted average return on equity	9.79	14.99	-5.20	15.86
Weighted average return on equity, excluding non-recurring gain/loss	10.49	11.31	-0.82	15.47
Net cash flow from operating activities per share (RMB)	1.98	0.51	288.24	1.03
	31 December 2009	31 December 2008	Increase/ decrease (%)	31 December 2007
Net assets per share attributable to shareholders of the listed company	4.84	4.46	8.52	3.97

Note: In July 2008, the Company increased its share capital to 1,022,739,308 shares through transfer from capital reserve. Therefore, at the end of the past three reporting years, the Company's earnings per share, net cash flow from operating activities per share and net assets per share were all calculated based on the total share capital of 1,022,739,308 shares.

(IV) Financial assets measured at fair values

(Unit: RMB)

Items	Opening balance	Closing balance	Current movement
Available for sale financial assets	34,454,057.04	67,378,568.05	32,924,511.01
Total	34,454,057.04	67,378,568.05	32,924,511.01

IV. Shareholders and Changes of Share Capital

(I) Changes in share capital

1. Changes in share capital as at 31 December 2009

There were no changes in the total number of shares or share structure during the reporting year.

2. Changes in shares restricted for trading

(Unit: Share)

Name of shareholder	Number of shares restricted for trading as at 1 January 2009	Number of shares released from trading restriction during the year	Number of shares restricted for trading increased during the year	Number of shares restricted for trading as at 31 December 2009	Reason for trading restriction	Date of releasing trading restriction
Shanghai Electric Group Company Limited	483,520,364	483,520,364	0	0		17 August 2009
Total	483,520,364	483,520,364	0	0	/	/

(II) Share issuance and listing

1. Each share issuance in the past three years

The Company did not issue any shares or derivative securities in the past three reporting years.

2. Changes in the Company's total number of shares and share structure

During the reporting year, there were no changes in the total number of shares of the Company or share structure arising from bonus shares or placing.

3. Internal staff shares

As at the reporting year end, the Company had no internal staff shares.

(III) Shareholders and substantial controller

1. Number of shareholders and shareholding

(Unit: Share)

As of the reporting year end, total number of shareholders is 83,739, including 53,099 A share shareholders and 30,640 B share shareholders.						
Shares held by the top ten shareholders						
Name of shareholders	Nature	Shareholding ratio (%)	Number of shares	Increase/decrease during the reporting year	Shares restricted for trading	Number of pledged or frozen shares
Shanghai Electric Group Company Limited	State-owned	47.28	483,520,364	0	0	Nil
Agricultural Bank of China - Zhongyou Core Growth Security Investment Fund	Other	3.70	37,817,087	-11,266,958	0	Nil
Agricultural Bank of China - Zhongyou Core Premium Security Investment Fund	Other	2.86	29,222,891	-14,950,626	0	Nil
Manulife Global Fund	Foreign investor	0.82	8,336,819	8,336,819	0	Unknown
Industrial and Commercial Bank of China - Fuguo Hushen 300 Strengthened Security Investment Fund	Other	0.72	7,333,283	7,333,283	0	Nil
Industrial and Commercial Bank of China - Guangfa Strategy Optimal Mixed Security Investment Fund	Other	0.59	6,074,431	6,074,431	0	Nil
PICC Property and Casualty Co., Ltd - Traditional-General Insurance Product -008C-CT001 Hu	Other	0.49	4,999,864	4,999,864	0	Nil
Citic Securities Co., Ltd.	Other	0.49	4,969,860	4,969,860	0	Nil
Value Partners Classic Fund	Foreign investor	0.46	4,739,494	4,739,494	0	Unknown
Macquarie Investment Management Limited As Re For Premium China Fund	Foreign investor	0.38	3,859,395	3,859,395	0	Unknown
Shares held by the top ten shareholders not restricted for trading						
Name of Shareholders		Number of shares not restricted for trading		Type of shares		
Shanghai Electric Group Company Limited		483,520,364		A Share		
Agricultural Bank of China - Zhongyou Core Growth Security Investment Fund		37,817,087		A Share		
Agricultural Bank of China - Zhongyou Core Premium Security Investment Fund		29,222,891		A Share		
Manulife Global Fund		8,336,819		B Share		
Industrial and Commercial Bank of China: Fuguo Hushen 300 Strengthened Security Investment Fund		7,333,283		A Share		
Industrial and Commercial Bank of China-Guangfa Strategy Optimal Mixed Security		6,074,431		A Share		

Investment Fund		
PICC Property and Casualty Co. Ltd-Traditional-General Insurance Product -008C-CT001	4,999,864	A Share
Citic Securities Co., Ltd.	4,969,860	A Share
Value Partners Classic Fund	4,739,494	B Share
Macquarie Investment Management Limited As Re For Premium China Fund	3,859,395	B Share
Explanations on the affiliation relationship or acting-in-concert among the above shareholders	<p>1. No affiliation relationship exists between Shanghai Electric Group Company Limited and the top 10 shareholders, nor does the acting-in-concert relationship specified in “Regulatory Provisions on Disclosure of Information on Shareholding Change of Shareholders for Listed Companies” exist.</p> <p>2. Zhongyou Core Growth Security Investment Fund and Zhongyou Core Premium Security Investment Fund are both managed by China Post & Capital Fund Management Co., Ltd.. The Company is not aware of any affiliation relationship exists between the other shareholders and whether they are acting-in-concert persons as specified in “Regulatory Provisions on Disclosure of Information on Shareholding Change of Shareholders for Listed Companies”.</p>	

2. Controlling shareholder and substantial controller

(1) Controlling shareholder

○ Legal person

(Unit: RMB 10,000)

Name	Shanghai Electric Group Company Limited
Legal representative	Mr. Xu Jianguo
Date of incorporation	1 March 2004
Registered capital	1,189,164.80
Principal activities	Power station for power supply and distribution, electromechanical integration, transportation, designing, manufacturing, selling and service provider for environmental products. Wholesale, trading, commissioning agency (except auction), supporting services, general contractor of power engineering, general assembly or delivery of equipment and technological services (business permits available) for the related products above.

(2) Substantial controller

○ Legal person

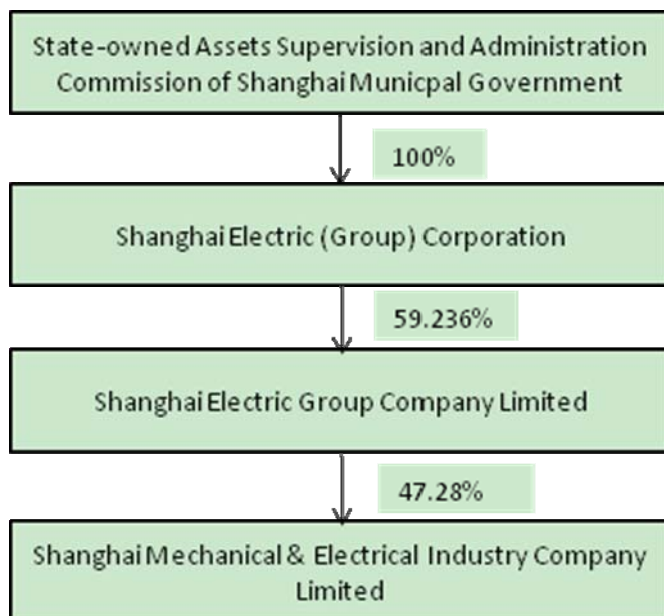
(Unit: RMB 10,000)

Name	Shanghai Electric (Group) Corporation
Legal representative	Mr. Xu Jianguo
Date of incorporation	28 May 1998
Registered capital	473,068
Principal activities	Management of state-owned assets and investment businesses

(3) Changes in the controlling shareholder and substantial controller

No changes in the controlling shareholder and substantial controller during the reporting year.

Equity and controlling relationship between the substantial controller and the Company



3. Other corporate shareholders with shareholding exceed 10%

No other corporate shareholders with shareholding exceed 10% as at the reporting year end.

V. Directors, Supervisors and Senior Management

(I) Remuneration details of and shares held by directors, supervisors and senior management

(Unit: share)

Name	Title	Gender	Age	Begin of office term	End of office term	Shareholding at the beginning of the year	Shareholding at the end of the year	Reason for change in shareholding	Total remuneration received from the Company (RMB 10,000 before tax)	Whether receive remuneration from the shareholders or other related entities
Xu Jianguo	Chairman of the Board	Male	59	21 May 2009	20 May 2012	0	0			Yes
Fan Bingxun	Vice Chairman	Male	64	21 May 2009	20 May 2012	0	0			Yes
Zhu Bin	Vice Chairman	Male	49	21 May 2009	20 May 2012	0	0			Yes
Chen Hong	Director, General Manager	Male	56	21 May 2009	20 May 2012	0	0			Yes
Liu Zhenduo	Director	Male	62	21 May 2009	20 May 2012	0	0			Yes
Ye Fucai	Director	Male	59	21 May 2009	20 May 2012	0	0			Yes

Lu Honggui	Director	Male	59	21 May 2009	20 May 2012	0	0			Yes
Chai Qinglai	Director	Male	46	26 May 2006	20 May 2009	0	0			Yes
Wang Fanghua	Independent Director	Male	63	21 May 2009	20 May 2012	0	0		3.5	No
Sun Zheng	Independent Director	Male	53	21 May 2009	20 May 2012	0	0		3.5	No
Wang Zhiqiang	Independent Director	Male	53	21 May 2009	20 May 2012	0	0		6	No
Zhang Renji	Independent Director	Male	68	21 May 2009	20 May 2012	0	0		6	No
Liang Gongjie	Independent Director	Male	67	26 May 2006	20 May 2009	0	0		3	No
Wu Guohua	Independent Director	Male	46	26 May 2006	20 May 2009	0	0		3	No
Si Wenpei	Secretary of the Board & Chief Accountant	Male	46	21 May 2009	20 May 2012	0	0		39	No
Yu Yingui	Chief of Supervisor	Male	60	21 May 2009	20 May 2012	0	5,000	Bought from the secondary market		Yes
Yuan Mifang	Supervisor	Male	58	21 May 2009	20 May 2012	0	0			Yes
Rui Hejian	Supervisor	Male	58	21 May 2009	20 May 2012	0	0		48	No
Zheng Jinrong	Supervisor	Male	50	21 May 2009	20 May 2012	0	0			Yes
Jiang Ancheng	Supervisor	Male	60	21 May 2009	20 May 2012	0	0			Yes
Xie Tonglun	Supervisor	Male	54	26 May 2006	20 May 2009	0	0			Yes
Xu Li	Supervisor	Male	48	26 May 2006	20 May 2009	0	0			Yes
Wang Xinpin	Executive Deputy General Manager	Male	56	21 May 2009	20 May 2012	0	0		53	No
Shen xin	Vice General Manager	Male	47	21 May 2009	20 May 2012	0	0		41	No
Gu Zhiyi	Vice General Manager	Male	65	26 Oct 2006	30 Dec 2009	0	0			Yes
Total	/	/	/	/	/	0	5,000	/	206	/

1. Mr. **Xu Jianguo**, was the Deputy Manager of Shanghai Daily Commodities Chemical Industry Co., Ltd., Assistant to Director, Deputy Director and Secretary of CPC committee of Shanghai Light Industry Bureau, Deputy Director of Shanghai Economic Committee, Head of Baoshan District of Shanghai, Head of Huangpu District of Shanghai, Deputy Secretary of Shanghai Municipal Government and Director of Shanghai Economic Committee, and is now the Board Chairman of Shanghai Electric (Group) Corporation, Shanghai Electric Group Company Ltd. and Shanghai Mechanical & Electrical Industry Co., Ltd.

2. Mr. **Fan Bingxun**, was the Vice Factory Director and Secretary of CPC committee of Shanghai Great Wall Elevator Factory, and is now the Vice Board Chairman of Shanghai Mechanical & Electrical Industry Co., Ltd., and the Board Chairman of Shanghai Mitsubishi Elevator Co., Ltd.

3. Mr. **Zhu Bin**, was the Deputy Head of the Power Generation Department of Shanghai Electric (Group) Corporation, the General Manager and Executive Director of Shanghai Electric Power Station Auxiliary Equipment Works Co., Ltd., the Executive Vice President of Shanghai Electric Power Generation Group, and is now the Chief Operating Officer and the Assistant to the President of Shanghai Electric Group Co., Ltd. and the Vice Chairman of Shanghai Mechanical & Electrical Industry Co., Ltd.

4. Mr. **Chen Hong**, was the General Manager of Shanghai Instrument Electronics Import and Export Corporation, the Vice General Manager of Shanghai Video & Audio Electronics Co., Ltd., the Vice President of Shanghai General Electronics (group) Co., Ltd, the General Manager and Director of Shanghai Electric International Economic and Trading Co., Ltd., and is now the General Manager and Board member of Shanghai Mechanical & Electrical Industry Co., Ltd.

5. Mr. **Liu Zhen Duo**, was the Deputy Factory Director of Shanghai Liangong Valve Factory, the Vice Office Director and the Head of Planning Division of Shanghai Mechanical & Electrical Industry Administration Bureau, the General Manager of Shanghai Electrical & Mechanical (Group) Corporation, the Director of Base Component Development Department of Shanghai Electric (Group) Corporation, the Vice President of Shanghai Electric (Group) Corporation, and the General Manager and Board member of, Shanghai Mechanical & Electrical Industry Co., Ltd., and is now the Board member of Shanghai Mechanical & Electrical Industry Co., Ltd.

6. Mr. **Ye Fucui**, was the Factory Director of Shanghai Complete Electrical Apparatus Factory, the President of Shanghai Siemens Switch Co., Ltd., the Factory Director of Shanghai Huatong Switch Factory, the General Manager of Shanghai General Machinery (Group) Company, and the Director of Petro-Chemical Machinery Development Department of Shanghai Electric (Group) Corporation, and the Director of Industrial Development Department of Shanghai Electric (Group) Corporation, and is now the President of the Pacific Mechatronic (Group) Co., Ltd., and the Board member of Shanghai Mechanical & Electrical Industry Co., Ltd.

7. Mr. **Lu Honggui**, was the Vice Director of Financial & Accounting Division of Shanghai Boiler Work Ltd, the Director & Vice Chief Accountant of Financial & Accounting Division, the Director of Assets Finance Department of Shanghai Electric (Group) Corporation, and the Chief Supervisor of Shanghai Electric Co., Ltd., and is now the General Manager of Shanghai Electric Group Finance Co., Ltd., and the Board member of Shanghai Mechanical & Electrical Industry Co., Ltd.

8. Mr. **Chai Qinglai**, was an engineer, Assistant of Dean, the Vice Dean of Shanghai Institute of Mechanical & Electrical Engineering, the Director of Investment Office of Strategic Commission of Board of Shanghai Electric (Group) Corporation, and the Board member of Shanghai Mechanical & Electrical Industry Co., Ltd., and is now the Vice Director of Industrial Development Department of Shanghai Electric Group Corporation.

9. Mr. **Wang Fang Hua**, was the Head of Business Management Department, Assistant to Dean and Director of Industrial Economy Educational and Research Office of Management School of Fudan University, Vice Dean, Deputy Vice Dean and Dean of School of Management of Shanghai Jiao Tong University, and is now the Dean of Antai College of Economics & Management of Shanghai Jiao Tong University and also the member of the review team of the Office of the State Council Academic Degrees Committee, the member of China National MBA Education Supervisory Committee, member of Department of Science and Technology, the Vice President of China Marketing Association, Shanghai Entrepreneur Association and Shanghai Market Association, the President of China Business Management Research Committee. He is also the Independent Director of Shanghai Oriental Pearl (Group) Co., Ltd., Shanghai New World Co., Ltd., Shenzhen Auto Electric Power Plant Co., Ltd. and Shanghai Mechanical & Electrical Industry Co., Ltd.

10. Mr. **Sun Zheng**, was the Vice Director, Director, Assistant to Principal of the Accounting Department of Shanghai University of Finance and Economics, and is now the Vice principal of Shanghai University of Finance and Economics, Vice President of Accounting Society of China, members of China GAAP Committee of Ministry of Finance, Listed Company Expert Committee of Shanghai Stock Change, Finance Budget Committee of State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, Independent Directors of Shanghai Pudong Development Bank Co., Ltd., Shanghai Wanye Enterprise Co., Ltd. and Shanghai Mechanical & Electrical Industry Co., Ltd.

11. Mr. **Wang Zhiqiang**, was the Director and the Chief Financial Officer of Shanghai Electric Motor (Group), the Deputy General Manager of Shanghai Jiushi Corporation., the General Manager of Finance and Accounting Division and the Deputy Chief Accountant of Shanghai Chengtuo Corporation, and is now the Deputy General Manager of Shanghai Chengtuo Corporation, the Chairman of Board of Supervisors of Shanghai Coking & Chemical Corporation, the Chairman of Board of supervisors of Shanghai Municipal Raw Water Co., Ltd., the Independent Director of Shanghai Mechanical & Electrical Industry Co., Ltd.

12. Mr. **Zhang Renji**, was lecturer, associate professor, professor, MIS Staff Room Director of Economic Information Department of Shanghai University of Finance and Economics, and is now the professor of Shanghai National Accounting Institute, the Independent Director of Shanghai No. 1 Pharmacy Limited Liability Company, and the Independent Director of Shanghai Mechanical & Electrical Industry Co., Ltd.

13. Mr. **Liang Gongjie**, was the senior engineer, Vice Division Director, and Division Director of Shanghai Commission for Foreign Economic Relations and Trade, the Independent Director of Shanghai Mechanical & Electrical Industry Co., Ltd., and is now the Board Chairman of Shanghai World Expo Information Network Co., Ltd.

14. Mr. **Wu Guohua**, was the Vice Section Chief of Headquarters of Shanghai Pudong Development Bank, Vice President of Shinan Sub-branch of Shanghai Branch of China Minsheng Bank, and General Manager of Business Management Department of Shanghai Branch of China Minsheng Bank and Independent Director of Shanghai Mechanical & Electrical Industry Co., Ltd., and is now the Assistant to President of Shanghai Rural Commercial Bank.

15. Mr. **Si Wenpei**, was the Chief of Finance Section and Financial Director of Shanghai Wood-Based Panel Machinery Factory, and is the Secretary of Board and the Chief Accountant of Shanghai Mechanical & Electrical Industry Co., Ltd.

16. Mr. **Yu Yingui**, was the Vice General Manager and General Manager of Shanghai Diesel Engine Co., Ltd., and is now the Executive Director and Financial Director of Shanghai Electric Group Co., Ltd., Chief Supervisor of Shanghai Mechanical & Electrical Industry Co., Ltd. and Independent Director of Shanghai 3F New Materials Co., Ltd.

17. Mr. **Yuan Mifang**, was the Financial Directors of Power Transmission and Distribution Division of Shanghai Electric (Group) Corporation and Shanghai Power Transmission and Distribution Co., Ltd., and is now the Audit Office Director of Shanghai Electric Group Company Limited and Supervisor of Shanghai Mechanical & Electrical Industry Co., Ltd.

18. Mr. **Rui Hejian**, was the Deputy General Manager of Shanghai Printing Mechanical Corporation, Vice Director of Machine Tool Division of Shanghai Electric (Group) Corporation, Vice Executive President and Director of Machine Tool Division of Shanghai Electric (Group) Corporation., and is now the Supervisor, Deputy Secretary of the Party, Secretary of Discipline Inspection Commission and Labour Union Chairman of Shanghai Mechanical & Electrical Industry Co., Ltd.

19. Mr. **Zhen Jinrong**, was the Vice President of Shanghai Power Equipment Co., Ltd and Vice General Manager of Shanghai Power Station Auxiliary Equipment Works Co., Ltd., Executive Director and General Manager of Shanghai Welding Equipment s & Consumables Co., Ltd., and is now the Supervisor of Shanghai Mechanical & Electrical Industry Co., Ltd., Secretary of the Party and Vice President of Shanghai Electric Group Printing & Packaging Machinery Co., Ltd.

20. Mr. **Jiang Ancheng**, was the Deputy Secretary of CPC Committee of Production Planning Department and Deputy Office Director of CPC Committee in Shanghai Great Wall Elevator Factory, Assistant to President, Director of President's Office and Vice President of Shanghai Mitsubishi Elevator Co., Ltd., and is now Supervisor of Shanghai Mechanical & Electrical Industry Co., Ltd, Deputy Secretary of CPC Committee and Labor Union Head of Shanghai Mitsubishi Elevator Co., Ltd.

21. Mr. **Xie Tonglun**, was the Chief of Organization Section, and Director of Organization Labor Human Division of Shanghai Huatong Switch Factory, and Vice Director of Party Committee Office and Vice Secretary of Committee for Discipline Inspection of Shanghai Electric (Group) Corporation, Supervisor of Shanghai Mechanical & Electrical Industry Co., Ltd., and is now Vice Secretary of Committee for Discipline Inspection and Director of Party Committee Office of Shanghai Electric (Group) Co., Ltd.

22. Mr. **Xu Li**, was the Director of Comprehensive Planning Department, Production Department, and Human Department of Shanghai Tonghui Carrier Air-condition Equipment Co., Ltd., Supervisor of Shanghai Mechanical & Electrical Industry Co., Ltd., and is now Director of Labor Union of Shanghai Tonghui Carrier Air-condition Equipment Co., Ltd.

23. Mr. **Wang Xinping**, was the Director and Vice General Manager of Shanghai United Carrier Company, and Director and Vice General Manager of Shanghai Hezhong Carrier Air-condition Equipment Co., Ltd., and is now Executive Vice General Manager of Shanghai Mechanical & Electrical Industry Co., Ltd.

24. Mr. **Shen Xin**, was the Director staff member of the Public Relations Department of Shanghai Electric (Group) Corporation, Manager of the President's Office of Shanghai Electric Group Printing and Packaging Machinery Co., Ltd., and Manager of the President's Office and Assistant to the President of Shanghai Mechanical & Electrical Industry Co., Ltd., and is now Vice General Manager of Shanghai Mechanical & Electrical Industry Co., Ltd.

25. Mr. **Gu Zhiyi**, was the Deputy Director of Shanghai Compressor Factory, Deputy General Manager and General Manager of Shanghai Bearing Company, General Manager of Shanghai Hydraulic and Pneumatic Equipment Parent Company, Deputy General Manager of Shanghai Mechanical & Electrical Industry Co., Ltd., General Manager of Shanghai Electric Hydraulic Pneumatic Equipment Co., Ltd., and is now the Executive Director of Shanghai Electric Hydraulic Pneumatic Equipment Co., Ltd.

(II) Concurrent positions held by directors, supervisors and senior management in the shareholders' entities

Name	Names of shareholders' entities	Title	Whether received remuneration from the shareholders
Xu Jianguo	Shanghai Electric Group Company Limited	Chairman of the Board, Chief Executive Officer	No
Zhu Bin	Shanghai Electric Group Company Limited	Chief Operating Officer, Assistant to Precedent	Yes
Yu Yingui	Shanghai Electric Group Company Limited	Executive Director, Chief Financial Officer	Yes
Yuan Mifang	Shanghai Electric Group Company Limited	Chief of Auditing Department	Yes
Xie Tonglun	Shanghai Electric Group Company Limited	Vice Secretary of Committee for Discipline Inspection and Director of Party Committee Office	Yes

Concurrent positions held by directors, supervisors and senior management in other entities

Name	Name of other entities	Title	Whether received remuneration
Xu Jianguo	Shanghai Electric (Group) Corporation	Chairman of the Board	Yes
Liu Zhenduo	Shanghai Industrial Boiler Research Institute	Head of Institute	Yes
Fan Bingxun	Shanghai Mitsubishi Elevator Co., Ltd	Chairman of the Board	Yes

Ye Fucai	Pacific Mechatronic (Group) Co., Ltd	Chairman of the Board	Yes
Chai Qinglai	Shanghai Electric (Group) Corporation	Vice Director of Industrial Development Department	Yes
Lu Honggui	Shanghai Electric Group Finance Co., Ltd	General Manager	Yes
Wang Fanghua	Antai College of Economics and Management, Shanghai JiaoTong University	President of College	Yes
Sun Zheng	Shanghai University of Finance and Economics	Vice President of University	Yes
Wang Zhiqiang	Shanghai Chengtuo Corporation	Deputy General Manager	Yes
Zhang Renji	Shanghai National Accounting Institute		Yes
Liang Gongjie	Shanghai World Expo Information Network Co., Ltd.	Chairman of the Board	Yes
Wu Guohua	Shanghai Rural Commercial Bank	Assistant to President	Yes
Zheng Jinrong	Shanghai Electric Group Printing and Packaging Machinery Co., Ltd	Secretary of CPC Committee, Vice President	Yes
Jiang Ancheng	Shanghai Mitsubishi Elevator Co., Ltd	Deputy Secretary of CPC Committee, Labor Union Head	Yes
Xu Li	Shanghai Tonghui Carrier Air- Condition Equipment Co., Ltd	Deputy Secretary of general party branch ,Director of Labor Union	Yes
Gu Zhiyi	Shanghai Electric Hydraulic Pneumatic Equipment Co., Ltd.	Executive Director	Yes

(III) Remunerations of directors, supervisors and senior management

Procedures to determine remunerations of directors, supervisors and senior management	Remunerations for independent directors are determined by the shareholders' general meetings, while the remunerations for senior management are determined by the Board of directors.
Basis on setting the remunerations of directors, supervisors and senior management	The achievement of the development strategies, investment decisions and operational goals set by the Board of directors.

(IV) Changes of directors, supervisors and senior management

Name	Title	Appointment or Resignation	Reasons
Zhu Bin	Vice president	Appointment	Election at the expiration of the terms of office
Chen Hong	Director, General Manager	Appointment	Election at the expiration of the terms of office
Liu Zhenduo	General Manager	Resignation	Retirement
Chai Qinlai	Director	Resignation	Expiration of the term of office
Wang Fanghua	Independent Director	Appointment	Election at expiration of the terms of office
Sun Zheng	Independent Director	Appointment	Election at expiration of the terms of office
Liang Gongjie	Independent Director	Resignation	Expiration of the term of office
Wu Guohua	Independent Director	Resignation	Expiration of the term of office
Yuan Mifang	Supervisor	Appointment	Election at expiration of the terms of office
Rui Hejian	Supervisor	Appointment	Election at expiration of the terms of office
Zheng Jinrong	Supervisor	Appointment	Election at expiration of the terms of office
Xie Tonglun	Supervisor	Resignation	Expiration of the term of office
Xu Li	Supervisor	Resignation	Expiration of the term of office
Gu Zhiyi	Vice General Manager	Resignation	Retirement

(V) Employee information (including subsidiaries)

Number of employees	4,931
Specialization	
Categories	Headcount
Management	926
Technician	664
Sales and Marketing	401
Production	2,940
Education	
Categories	Headcount
Master degree or above	148
Bachelor degree	927
Junior college degree	1,012
Below junior college degree	2,844

VI. Corporate Governance Structure

(I) Corporate governance

Since the listing, the Company has strictly adhered to the *Company Law*, *Securities Law*, *Governance Rules of Listed Companies*, *Stock Listing Rules of Shanghai Stock Exchange* and other relevant requirements of China Securities Regulatory Commission (“CSRC”). The Company continuously improves the corporate governance structure and operation. In accordance with the laws and regulations such as *Company Law*, *Securities Law*, *Listing Company Regulating Rules*, *Stock Listing Rules of Shanghai Stock Exchange*, *Accounting System of Business Enterprises* and *Accounting Standards of Business Enterprises*, the Company has established a complete, sound and effective internal control system, which mainly covers significant investment decision-making, information disclosure management, related party transaction decision-making, management of proceeds from fund-raising activities, financial management, as well as management of human resource, administration, purchase, sales and auditing. All the regulations are evaluated and assessed regularly, so that they are effectively implemented, which plays a significant role in supervising, controlling and directing the production and operation of the Company.

Aligned with the requirement of *the Notice on the Enforcement of the Specific Project of Corporate Governance of Public Company* issued by CSRC and *the Notice on the Implementation of Specific Project on Corporate Governance of Public Company* issued by the Shanghai CSRC, the Company has placed high emphasis on corporate governance and has launched the specific project on corporate governance from July 2007 to July 2008, wherein the Company prepared and announced self assessment and improvement reports. The specific project on corporate governance enabled the Company to improve corporate governance remarkably. We become aware that improving corporate management of a listed company is an important, fundamental and long-term task. The Company has consistently emphasized the importance of corporate governance to the management and has continued to improve the mechanism on information disclosure and internal control, combined with standardizing the General Meetings and Board meetings, as well as enhancing the awareness of responsibilities, which all aim to improve the corporate governance of the Company to the upgraded level.

Pursuant to *the Governance Rules of Listed Companies*, the Company’s corporate governance is introduced as follows:

1. Shareholders and General Meeting

The Company ensures that all the shareholders can fully execute the legal rights and be equally treated. The shareholders’ general meetings are called and held in accordance with *the Rules and Procedures for the General Meetings* issued by the Company, which is strictly complied with *the Comments on Normalisation of General Meetings* issued by CSRC. The transactions between the Company and its related parties are compatible with the principles of equality, voluntarism, equipollence and compensating, as well as openness, fairness and justness.

2. Controlling shareholder and the listed company

The reorganization initiated by the controlling shareholder is contributed to the development of the Company. It neither impairs other shareholders’ legitimate interest nor seeks for extra benefits by taking advantage of its special position. The Board of directors, supervisory committee and internal organizations are able to operate independently.

3. Directors and the Board of Directors

The Company elects and appoints its directors strictly in compliance with the procedures stipulated in the Company’s *Articles of Association*. The members of the board of directors perform their duties and obligations with due diligence according to the Company’s *Rules and Procedures of the Board meetings*, and protect the Company’s and all shareholders’ legal rights. The board of directors strictly applies the authority from the general meetings and implements the resolutions reached in the general meetings. The general meetings elect the independent directors, thereafter formulate the independent director mechanism, and also set up the specialty committees of the board of directors according to the relevant regulations, so as to improve the Company’s corporate governance.

4. Supervisors and the Supervisory Committee

The composition of the supervisory committee is in accordance with the relevant regulations and rules. The *Rules and Procedures of the Supervisory Committee Meeting* are revised and all committee members perform their duties with due care to the shareholders. In addition, they supervise the validity and rationality in duties performed by the directors and senior management, with the purpose to protect the legitimate interests of the Company and the shareholders.

5. Performance evaluation and the mechanism of motivation and restriction

The appointment of management pursues the principle of openness and transparency in accordance with the related laws, regulations and articles of associations. According to the development strategies and investment decisions, the board of directors sets operational goals to the corporate management, and evaluates their performance according to the operation and management results and achievements of the operational goals, thereafter determines the rewards and penalties.

6. Stakeholders

The Company respects the legal rights of stakeholders, including banks, other debtors, employees and consumers. The Company proactively cooperates with these stakeholders, ensuring a continuous and healthy development of the Company.

7. Information disclosure and transparency

With strict adherence to the related laws, regulations as well as the Company's articles of association, the Company formulates the *Information Disclosure Policy*, with the purpose to disclose information in a truthful, accurate, complete, timely and fair manner. The Secretary of the board of directors is responsible for information disclosure, communication with shareholders, answering the enquiries and providing potential investors with public disclosed information, ensuring all the shareholders are able to obtain the Company's information on a fair ground.

(II) Execution of director duties

1. Presence at the Board meetings

Name of directors	Independent directors or not	Number of times should be present at the meetings	Physically Present (times)	Present by means of Communications (times)	Present by proxy (times)	Number of Absence (times)	Whether being absent physically for two times consecutively
Xu Jianguo	No	10	10				No
Fan Bingxun	No	10	10				No
Zhu Bin	No	6	6				No
Chen Hong	No	6	6				No
Liu Zhenduo	No	10	10				No
Ye Fucai	No	10	10				No
Lu Honggui	No	10	10				No
Wang Fanghua	Yes	6	5		1		No
Sun Zheng	Yes	6	6				No
Wang Zhiqiang	Yes	10	10				No
Zhang Renji	Yes	10	10				No

Number of Board meetings in the reporting year	10
Of which are physical meetings	10

2. Disagreement on the Company's Issues by Independent Directors

There was no disagreement on the proposals raised in the Board meetings or the other issues during the reporting year.

3. Establishment and main content of Independent Directors Mechanism, and duty execution of the independent directors

Since 2002, the Company has implemented the independent director mechanism in accordance with *The Guidance on the Establishment of Listed Company's Independent Director Mechanism* released by CSRC. The independent directors contribute objective opinions from their professional and independent perspectives. They also provide valuable comments and suggestions upon the major decisions of the Company.

In order to enable the independent directors to have a better mechanism to have a full play of their roles, the Board of directors has established the Specialty Committees of the Board which mainly consist of independent directors. The Specialty Committees of the Board ensure the Company's independent directors have the rights and obligations to take part in the corporate affairs. Based on that, the Company makes full use of the platform of the Specialty Committees of the Board. Management reports to the Specialty Committees of the Board on the operations, management, business integration, restructuring and other major issues on a quarterly basis. After seeking advices and suggestions from the independent directors, the management reports to the Board of directors.

During the reporting year, the independent directors have been responsible to the shareholders and have discharged their duties with due care according to laws and regulations. In respect of the significant issues to be decided by the board of the directors, the independent directors would firstly review the information introduced and materials provided by the Company and make full preparation for the Board's significant decision; they would then express their independent views in the Board meetings; the independent directors understand the operations of the Company on a timely basis; they review and check the disclosures of the Company's information. They have effectively discharged the duties of independent directors and protected the Company's overall interests and the legitimate interests of public shareholders.

(III) Segregation of operation, personnel, assets, organization and finance between the controlling shareholder and the Company

	Whether being independent and integral	Descriptions
Operations	Yes	The Company has the capacity to operate independently, which is independent from the controlling shareholder.
Personnel	Yes	The Company is fully independent with respect to labour, personnel and salary management. The senior management all receive remunerations from the Company with no positions in the shareholder's entities.
Assets	Yes	The Company possesses independent production system, auxiliary production system, supplementary facilities and intangible assets such as industrial property rights, trademarks and know-how.
Organization	Yes	The Company sets up sound organization structure. The Board of directors and the Board of supervisors operate independently, without any affiliating relationship with the functional departments of the controlling shareholder.
Finance	Yes	The Company sets up independent finance department, accounting system and financial management system, with independent bank accounts.

(IV) Establishment and Improvement of internal control system

<p>Overall design of the internal control system</p>	<p>The Company sets a long-term mechanism of internal controls as the guidance. In accordance with the <i>Basic Norms of Internal Control</i> issued by the five ministries including the Ministry of Finance, and the internal control requirements of listed companies raised by the Shanghai Stock Exchange, the Company shall refine the internal control system documentation against the objectives of the internal controls with consideration of the experience from the practices, identify the control activities and then compile internal control manuals, and assess the effectiveness of the internal controls against the manuals. The Company shall continuously improve the internal controls by rectifying its control deficiencies, and eventually establish an independent and self-sustained internal control evaluation mechanism.</p>
<p>Working plan and implementation of the internal control system</p>	<p>The objectives of the Company's internal controls are to reasonably ensure the legitimacy and compliance of corporate business, asset security, accuracy and completeness of financial reporting and related information, improve the operational efficiency and effectiveness and promote corporation development strategy. In establishing a sound and effective internal control system, the Company has considered the five elements in the <i>Basic Norms of Internal Control</i>, being internal environment, risk assessment, control activities, information and communication as well as internal supervision. By assessing the control activities and objectives, control deficiencies are identified. Controls are then designed, implemented and tested by the relevant departments so as to ensure they are effective.</p> <p>According to the <i>Company Law</i>, <i>Securities Law</i> and other relevant regulations, the Company has established a defined structure for the shareholders' general meeting, Board of directors, Board of supervisors and the management level. The Company also has established standardized procedures, clarified the rights and obligations on decision-making, implementation and monitoring. By doing so, a scientific, effective and balanced division of responsibilities has been established. The Board of directors consists of specialty committees of strategy, audit, nomination, remuneration and evaluation. The Board develops working rules to further improve the governance structure and to promote scientific and effective decision-making process. Taking into account the actual situation of the operations, business model and segregation of duty, the Company has established corresponding functional departments and set job responsibilities so as to ensure clear job allocation, duties, mutual cooperation and supervision.</p> <p>Through daily operations, the Company's Board of directors and the senior management collect related</p>

	<p>information and identify internal and external risks. According to the strategic plan, development thoughts and the established control objectives, they grasp the key risk factors, assess the impact of risks and take measures to deal with the risks.</p> <p>The Company has formulated the <i>Articles of Association, Working Mechanism of Independent Directors' Annual Report, Information Disclosure Policy, Internal Audit Charter</i> and other major rules and regulations. With consideration of all aspects of the management requirements on daily operations and management, the Company has established the series of internal control systems on cash, purchase, sale, inventory, fixed assets, finance, investment, budgeting and human resources, so as to formalize and streamline the various aspects of operations and management and establish a sound management system.</p> <p>The Company has set up internal and external communication systems, such as the <i>Rules on Investor Relationship Management, Rules on Contingency Plan, Rules on Comprehensive Analysis of Financial Reporting and Budget Management</i>. The Company's website, IT office tools and other means of communications have enabled faster, smoother, more convenient and effective communications among the internal departments and employees of the Company and the external regulatory organizations and investors.</p> <p>The Board of supervisors supervises the performance of the directors, senior management and the compliance of the Company's operations against laws. They are also responsible to the general meetings. The Audit Committee is a specialty component under the Board of directors, primarily responsible for the internal and external audit communications, monitoring and verification to ensure an effective oversight to management by the Board.</p>
<p>Setting of internal control inspection and supervision department</p>	<p>The Company's internal control department is responsible for the inspection and supervision for internal controls. The internal control department detects control deficiencies on a timely basis through organization and implementation of internal control self-assessment, makes recommendations, oversees the implementation of rectification, reports to management through appropriate channels and reports regularly to the audit committee.</p>
<p>Execution of internal supervision and internal control self-assessment</p>	<p>The internal control department of the Company carries out independent internal audit under the leadership of the Board of directors and the audit committee, targeting the Company's development goals and focusing on the effectiveness of internal controls. The department plays an important role in strengthening internal control awareness and enhancing operational management.</p> <p>As a sample company of corporate governance segment</p>

	<p>in the Shanghai Stock Exchange, the Company has disclosed the internal control self-assessment report together with the annual report since 2008 as required by the Shanghai Stock Exchange. The internal control department prepared the <i>2009 Plan on the Evaluation of Internal Control</i> in early 2009 and carried out the two phases of 2008 and 2009 annual self-evaluation of internal control. The internal control self-assessment mainly includes the preparation of the overall project plan; the implementation of the project training; scoping of internal control evaluation; preparation for the internal control filings and improving the internal control deficiencies. The internal control department takes responsibilities of organizing and implementing the evaluation process of internal controls, wherein they submit the <i>Evaluation and Supervision Report of Internal Control</i> and <i>Report on Internal Control Deficiency Rectification and Completion</i> to the management and the audit committee. The Board of directors then evaluates the internal control system according to the internal control self-evaluation results.</p>
Working arrangements of internal controls by the Board of directors	<p>The Board of directors reviews the Company's annual internal control self-assessment report, and suggests for improvements. Via the audit committee, they review and evaluate the internal controls on a regular basis, so as to reach conclusions on whether the internal controls are carried out effectively.</p>
Improvement of internal control system related to finance and accounting	<p>The Company has developed and constantly revised and improved the series of internal control systems related to finance and accounting, such as <i>Working Rules of the Chief Accountant</i>, <i>Rules on Approval of Guarantee</i>, <i>Guarantee letter and Loan</i>, <i>Rules on Authorisation and Procedures on Fund</i>, <i>Key Accounting Policies</i>, <i>Basic Rules on Accounting</i>, <i>Accounting Information Management System</i>, <i>Rules on Accounting Filing Management</i>, etc.. The Company has established the series of effective financial management and control systems, including the accounting methodology, segregation of accounting responsibilities, capital management, accounts receivable, accounts payable management and expense management. These measures have standardized the finance functions and have contributed to a healthy development for the Company.</p>
Deficiencies and rectification of internal control system	<p>According to the self inspection, there are no significant deficiencies in the Company's internal control system in terms of designing or implementation. The Company will continuously improve the internal control system and ensure the completeness and effectiveness of the internal control system.</p>

(V) Assessment and incentives of the senior management

The senior management of the Company is appointed by and directly reports to the Board of directors. The Board assesses and evaluates the performance of the senior management, who manages the Company based on the strategies and investment decisions set by the Board.

(VI) Disclosure on the Self-Evaluation Report on the Internal Control or the Report on Corporate Social Responsibilities

Refer to *the Self Evaluation Report on the Internal Control* and the *Report on Corporate Social Responsibilities* disclosed at website: www.sse.com.cn.

1. Whether the Company discloses the Self-Evaluation Report on the Internal Control: Yes
Disclosed at website: www.sse.com.cn.
2. Whether the Company discloses the external auditor's evaluations on the internal control report: No

(VII) Establishment of the policies to investigate material misstatements in the annual report

According to the requirements in the *Announcement on Consummating 2009 Annual Report and Relevant Activities* released by CSRC, the 7th meeting of the 6th Board of directors approved the *Policies on Investigating Material Misstatement in Annual Report's Information Disclosure of Shanghai Mechanical & Electrical Industry Co., Ltd.*

There is no material misstatement in the annual report in the reporting period.

VII. Summary of General Meeting

(I) Annual General Meeting

Session of the meeting	Date	Newspapers publishing the resolutions	Publishing date
The 2008 Annual General Meeting	21 May 2009	China Securities Journal, Shanghai Securities News and Wen Wei Po	22 May 2009

(II) Extraordinary General Meeting

Session of the meeting	Date	Newspapers publishing the meeting resolutions	Publishing date
2009 1st Extraordinary General Meeting	8 January 2009	China Securities Journal, Shanghai Securities News and Wen Wei Po	9 January 2009

VIII. Report of the Board of Directors

(I) Management's discussion and analysis

1. Operation review of the Company in the reporting year

The economy was seriously influenced by the global financial crisis in 2009. Under the adverse influence resulting in a more severe competition, the Company faced unprecedented operation stresses, particularly in the export business. The Company has focused on enhancing a healthy operation, competitiveness and profitability. We have transformed the pressure into our momentum for scientific development which would transform our Company to be stronger and more innovative. During the reporting year, the Company's operating revenue was RMB10.986 billion, increased by 5.16% compared to the prior year, maintaining a sustained and stable development momentum in the adverse environment.

Following the national policies on expanding domestic demand and promoting the steady economic growth of the country, the economy has shown signs of recovery. This represents an opportunity as well as a challenge for us. The Company continuously strived for sales orders and extended the sales channels to secure more revenue. We also focused on our management and try to cut our costs to achieve economic efficiency. The Company launched new research and development on products, enhanced our competitiveness and prepared for the future so as to gain market leadership.

(1) Elevator products

Starting from the fourth quarter in 2008, the sales volume in the real estate market has shrunk dramatically. The cooling in the real estate market started to impact to the elevator market and resulted in delays in orders and payments. The elevator industry was under unprecedented pressure. However, Shanghai Mitsubishi Elevator relied on its own strength and confidence, aiming to keep expanding in 2009. To ensure the achievement of the goal, Shanghai Mitsubishi Elevator proposed "enhance the cohesion, highlight the creativity and strengthen the execution" and further raised the awareness of employees in all aspects. We strived for each elevator and each order, expanded our market share and strengthened our leading position by "Quick Response, Adequate Strength, Accurate Measure, and Earnest Work". By taking effective measures, responding proactively to market changes and targeting at the RMB4 trillion economic stimulation package by the government, Shanghai Mitsubishi Elevator adjusted the marketing strategy, so as to match the development of the products to the structural changes in demand. The Company expanded and promoted the capacity of producing LEGY elevators for lower end apartments and the K-type escalators for public transportation. We further extended the network service terminals, to get more access to the clients, providing quicker and better services. In addition, Shanghai Mitsubishi Elevator focused on the development and extension of our network so as to enhance the market share. We expanded our orders and developed our services by speedy promotion of new process and technology. We focused on our customers and shortened the product delivery time by adjusting our production lines. Through our efforts, Shanghai Mitsubishi Elevator has sold 33,400 elevators in total, with operating income increased by 8.15%, net profit increased by 4.73% and continues to lead the domestic elevator market.

Facing the tough market conditions in 2009, Shanghai Mitsubishi Elevator proposed to increase market share and enhance our five capabilities-"product development, production, servicing, management, and learning". Based on product security, four major characteristics, energy-saving, environmental protection, high-speed and informationisation, come into being; comprehensive and competitive advantages in technology, decoration and quality are shaped in products of elevators and escalators; through benchmarking industrial and international standards and applying the best practice, core competitiveness is strengthened, core competitive edge is sustained, and the ability to cope with economic volatilities is enhanced.

The market demand of elevators would continue to remain stable with growth in 2010. Constructions of railways, subway and airport transportation infrastructure and the stable development of real estate demand would continue in 2010. Shanghai Mitsubishi Elevator has confidence to achieve a continuous growth in 2010.

(2) Printing and packaging machinery products

Resulted from the financial crisis, the printing machinery products have been affected by the upstream and downstream industries and shrank demand in domestic and overseas market. Although the decline of demand slowed down, the situation has not yet been improved and the export still remained weak. Printing and Packaging Company has established the development goals of "internationalization, integration and modernization". To achieve these goals, considering the current situation of the printing machinery industry, the company will fully integrate the printing machinery business by continuously seeking for acquisition opportunities, rationalizing the equity structure, integrating resources, reforming the internal structure and maintaining a healthy and sustainable development. In February 2009, under the strong support from the Shanghai Electric Group, the company acquired the foreign equity shares from its parent company for the business of sheet-fed offset press printing. This has eliminated the negative impact of the dispersion of the equity structure on the business integration. As the printer industry was at the phase of periodic adjustment, the company has strengthened internally, integrated the organizational structure, technology, management and human resource in the model as an industrial group and achieved synergy across research and development, manufacturing, sales and finance functions. The company will further control and reduce the costs by effective management through the integration of resources, creation of synergy and improving our competitiveness. The company will also upgrade the manufacturing level rapidly through effective measures, minimizing the gap of the product quality as compared with the foreign printing and packaging machinery.

Based on the analysis of the current economic situation, the market in 2010 would turn out to be better than 2009, especially the printing industry has shown clear signs of recovery. The export market has improved and the orders have gradually increased. However, the overall growth of the demand is still not optimistic. The company will set high-tech, high efficiency, automation and linkage as the targets, focusing on the offset printing press market. The domestic market will be our focus while we will strive to expand the market in the third world countries with trend of growing demand. With the economic recovery and reliance on the advanced technology and efficient management, Printing and Packaging Company will achieve a broad market and bright prospects.

(3) Engineering machinery products

Stimulated by the State's investment of RMB 4 trillion, high-speed railway, highways, hydro projects and other infrastructures has shown speed development, which enabled the engineering machinery industry to take the lead in recovery from the "cold winter" in 2008. In 2009, Jintai Engineering maintained its leading position in the industry of the underground construction machinery, and so are its products of hydraulic continuous grab, multi-axis drill, engineering drill, large diameter drill and other hydraulic products in the domestic market. The product of hydraulic continuous grab enjoys market share of over 60% and the ZKD drill enjoys more than 65% of the market share. The production and sales of the rotary drill rank among the top ten in China. Such achievement of Jintai Engineering is mainly attributed to: the earliest entrance to the sector of underground construction machinery in domestic market and a high reputation in the industry; ample R&D and manufacturing experience with the leading technologies in China; high large market share with a large customer base; strong client services with trust from the domestic and international users; a mature, stable, skilled work forces and reliable product quality.

Jintai Engineering has completed the first expansion project and its production capacity has significantly increased. Meanwhile, Jintai Engineering continues to invest in R&D, launch new products, prepare for optimal product mix, and complete the series and batches of products, in order to respond to the market changes. Currently, by means of strategic alliance and university-industry cooperation, Jintai Engineering are focusing on developing the SH series multi-functional drilling machines, multi-functional large tonnage crawler chassis, hydraulic rig, wheel milling equipment, TRD equipment, hydraulic crawler crane machines, light layer of oil drilling rig, hydraulic roof bolter and other products.

In respect of the national infrastructure construction in 2010, new performances are expected in the construction of high-speed rail, urban rail transport and water conservancy projects, including high-speed railway construction as represented by Hukun passenger express, rail transit construction in Fuzhou, Nanning, Kunming and other cities, water conservancy projects like south-to-north water diversion project with additional investment of RMB40 billion, and fast developing Bohai Bay Economic Development Zone, especially Tianjin Binhai New Development Area. All the above projects will create new opportunities and accelerate the growth of Jintai Engineering. Under the recovery of the global economy and the unfreezing and warming of international market, Jintai Engineering will focus on expanding its business in the emerging markets such as the Middle East, Brazil and India in 2010 and will seek for new breakthroughs in the export sales.

(4) Hydraulic and pneumatic products

The hydraulic and pneumatic machinery and component manufacturing industry plays an important role in the national economy. Alongside with the development of science and technology, the upgrading of the domestic industry from the normal equipment to high-end products, and the migration of international equipment manufacturing industry towards China, the high-tech hydraulic, pneumatic and sealing supporting industries are facing rare development opportunities. Due to the large scale railway construction, the development of central China and the acceleration of urbanization, the engineering machinery industry is facing a good internal environment, which will lead to the growth in the demand and the rapid development of the hydraulic pneumatic machinery and component manufacturing industry.

Hydraulic and Pneumatic Company has become the leading company in the domestic hydraulic component industry and it ranks as top in terms of many economic indicators and comprehensive capacity. The Company is currently establishing a municipal technology development center and extensively developing products with world leading pressure and speed, in order to further enhance the company's core competitiveness. The market focus of Hydraulic Pneumatic Company will remain in the engineering machinery and mining machinery sectors. In addition to the traditional advantage products, Hydraulic Pneumatic Company has also developed a wind power hydraulic system equipped with servo control unit, which is highly advanced and hard to be manufactured. We have already started the sales of the wind power hydraulic system which supports 1.25MW and 2MW wind power equipment. With the recovery of the domestic economy, Hydraulic Pneumatic Company will achieve a healthy and sustainable growth in the coming year.

2. Analysis of principal operating activities and operation results

(1) Principal operating activities by sector

Unit: RMB

Sector	Revenue	Cost of sales	Profit margin (%)	Revenue increase/decrease (%)	Cost of sales increase/decrease (%)	Profit margin increase/decrease (%)
Elevator & escalator	8,364,779,664.57	6,682,203,738.40	20.12	8.15	9.15	Decreased by 0.73 per cent
Printing & packaging machinery	504,916,811.52	413,314,675.71	18.14	9.78	-0.46	Increased by 8.42 per cent
Hydraulic and pneumatic products	521,255,545.22	492,961,426.93	5.43	2.74	5.40	Decreased by 2.38 per cent
Man-made fiberboard	635,970,124.03	556,218,866.15	12.54	-10.25	-8.77	Decreased by 1.42 per cent
Engineering machinery	486,807,031.84	328,166,264.23	32.59	25.65	20.95	Increased by 2.62 per cent
Welding materials	417,057,336.94	377,428,967.63	9.50	-30.95	-33.31	Increased by 3.20 per cent

(2) Principal operating activities by region

Unit: RMB 10,000

Region	Revenue	Revenue increase/decrease (%)
Export	90,770.97	-21.20
Domestic sales	989,054.66	9.55

(3) Major suppliers and customers

Unit: RMB 10,000

Total purchase of the top five suppliers	203,411.63	As a percentage of total purchase	22.89%
Total sales of the top five customers	57,638.16	As a percentage of total sales	5.25%

3. Analysis on the key fluctuation in the Company's financial statements

(1) Assets

Unit: RMB 1,000

Accounts	31 December 2009	31 December 2008	Increase/decrease(%)
Cash and bank	5,905,618	4,158,197	42%
Notes receivable	181,163	112,937	60%
Other receivables	139,601	361,544	-61%

Advance to suppliers	332,214	255,339	30%
Available-for-sale financial assets	67,379	34,454	96%
Investment property	80,347	-	100%
Construction in progress	118,928	90,505	31%
Intangible assets	354,630	230,170	54%
long-term prepayments	8,243	27,934	-70%
Goodwill	77,068	3,627	2024.84%
Deferred tax assets	86,363	60,683	42%

- 1) The increase of cash and bank by 42% was mainly due to the net operating inflows resulted from the increase in revenue and advances from customers with the new orders.
- 2) The increase of notes receivables by 60% was mainly due to the fact that the fiberboard segment faced severe competition and requested for notes receivables with sales discounts so as to reduce the bad debt risks in account receivables.
- 3) The decrease of other receivables by 61% was mainly due to the receipt of proceeds from the disposal of interest in an associate in the prior year.
- 4) The increase of advance to suppliers by 30% was mainly due to the increase in purchases with the growth of sales orders and the anticipation of a rising steel price in the domestic market in elevator segment.
- 5) The increase of available-for-sale financial assets by 96% was mainly due to the increase in the fair value of the shares held by the Company.
- 6) The increases of investment property, construction in progress and intangible assets by 100%, 31% and 54%, respectively, were mainly due to the acquisition of subsidiaries in the current year.
- 7) The decrease of long-term prepayments by 70% was mainly due to the impairment of the long-term prepayments in the welding materials business which the Company will exit gradually.
- 8) The increase of goodwill was mainly due to the acquisition of Shanghai Guanghua Printing Machinery Co., Ltd. and Shanghai Purlux Machinery Co., Ltd. in the current year.
- 9) The increase of deferred tax assets by 42% was mainly due to the increase of taxable temporary differences arising from the increases in warranty provision and sales commissions, which are originated from the increased sales and sales orders in the elevator segment in the current year.

(2) Liabilities

Unit: RMB 1,000

Accounts	31 December 2009	31 December 2008	Increase/decrease(%)
Advance from customers	3,312,780	1,936,044	71%

The increase of advance from customers by 71% was mainly due to the sales orders increased in the elevator segment in the current year.

(3) Income statement

Unit: RMB 1,000

Accounts	2009	2008	Increase/decrease(%)
Revenue	10,986,235	10,447,383	5%
Cost of sales	8,888,159	8,489,100	5%
G&A expenses	899,710	759,141	19%
Investment income	251,508	412,103	-39%

- 1) The increase of revenue by 5% was mainly due to the increase in domestic market demand in the elevator and the drilling machine segments, along with the increase in cost of sales.
- 2) The increase of G&A expenses by 19% was mainly due to the acquisition of the subsidiaries in the current year. In addition, the provision for staff termination benefits for the segment restructuring also contributed to the increase.
- 3) The decrease of investment income by 39% was mainly due to the gains realized in the disposal of interest in an associate in the prior year and no such transaction occurred in the current year.

(4) Cash flows

Unit: RMB 1,000

Accounts	2009	2008	Increase/decrease (%)
Net cash inflows from operating activities	2,028,598	516,497	292.76%

The increase of net cash inflows from the operating activities was mainly due to the increase in sales orders in the reporting year which led to the increase of advance from customers.

4. Operation results of major subsidiaries

Unit: RMB

Name	Core products or services	Registered capital	Total assets	Net profit
Shanghai Mitsubishi Elevator Co., Ltd.	Elevator & escalator	1,202,787,282.92	8,147,643,063.38	720,395,617.74
Shanghai Electric Group General Refrigeration & Air-conditioning Equipment Co., Ltd.	Refrigeration & air-conditioning	350,604,677.82	574,461,632.17	97,596,097.58
Shanghai Electric Group Printing and Packing Machinery Co., Ltd.	Printing & packaging machinery	512,349,562.82	1,569,324,767.14	-74,974,782.34
Shanghai Electric Hydraulics Pneumatics Co. Ltd	Hydraulic and pneumatic parts	171,243,198.57	472,521,962.66	55,302,025.58
Shanghai Green Continent Investment Co., Ltd.	Man-made panel	190,000,000.00	543,092,011.10	11,543,176.63
Shanghai Jintai Engineering Machinery Co., Ltd.	Engineering machinery, pile driver, mechanical drilling machine	407,797,217.00	592,688,870.69	41,786,547.59
Shanghai Welding Equipment Co., Ltd.	Welding materials	100,714,404.74	208,477,293.58	-99,245,041.16

5. Future development and outlook of the Company

(1) Development strategy

The overall goal of the Company is to, through adhering to scientific outlook on development, in-house innovation, deepening of the reform, introduction of new systems and mechanisms, investments in new technology and equipment and establishment of talented team, to improve the quality of economic performance and the core competitiveness, enhance development and achieve a healthy and sustainable development.

1) Enhance independent innovation and improve core competitiveness

With the market orientation and product focus, we emphasize on both technological introduction and in-house innovation. Supported by the two state-level technology centers, our own technical force in the subsidiaries, the group central research institution and the social resources (colleges, universities and scientific research institutions), the Company will achieve university-industry collaboration, continually launch competitive products to meet the market demands, expand market share and add more values in our products.

2) Proactively launch new systems and mechanisms

Integrated with the adjustment in organization and personnel structure, the Company will launch revolutions in each subsidiary's systems and mechanisms, aiming to set up an evaluation system and incentive mechanism based on performance and operation.

3) Focus on the key sector, increase the investment in new technology and equipment and strengthen development potential

Key investments will be targeted at sectors with large market capacity, well-established foundations and promising prospects. We will invest in these industries and try to achieve economies of scale.

4) Seek for new growth targets

The Company will further expand, seek for investment projects that are in line with the development goal of mechanical & electrical industry and supplemental to the existing sectors to foster new growth targets.

5) Enhance economic operation analysis and financial monitoring and promote delicacy management

With the group's management and control system, the Company will provide data and information of the operation results, enhance the analysis on the market situation and trend, make accurate economic prediction and analysis, as well as implement financial management and monitoring in all aspects, such as budget management, internal control system, capital central management and internal audit.

(2) Working capital demand and usage

The working capital for the Company's production, operation and investment can be met by its accumulated working capital and bank loans.

(3) Risk factor analysis and solutions

The Company mainly faces market risks. The Company will adopt positive sales strategy, maintain and expand its market shares. The gross margin may be reduced with risk of further decline in product prices. To deal with that, the Company will take measures of cutting costs and improving efficiency: without compromising the quality and safety of the products, the Company will mitigate the risk of price reduction by cutting costs in purchase expenses and administrative expenses with lowered costs in design, purchasing and administration.

(4) Operation plan in the new financial year

In 2010, the Company will place emphasis on the following key aspects in the operation and management:

1) Focus on core businesses, develop core sectors and enhance competitiveness

① Support the business transformation of Shanghai Mitsubishi Elevator from production-manufacturing to service-operating, aiming at realizing the growth in both channels of equipment manufacturing and services. We will also ensure the smooth establishment and operation of the new escalator plant and further contribute to the development of SMEIC with standards of world class factory.

② The printing and packaging business will enhance the integration with the reform and realize the interactions among the companies, together with the advantage of our competitiveness, targeting to seek improvement in sheet-fed offset press business and become a key player in the medium-to-high end market.

③ Enhance the development of engineering machinery products, take full advantage of the increase in the domestic market demands, develop new products which meet the needs of the market, seize the chances and be the specialist. In addition to the increase of production capacity, we will seek for the breakthroughs in the bottle neck market and be in alliance with strategic customers, aiming to raise the capacity in terms of production, market share and profit.

④ In the hydraulic and pneumatic business, we will take advantage of the Li-Bin technology center and solve the technological and quality problems in the hydraulic sets production. We will also seize internal and external chances so as to further develop the business. Moreover, we will explore both domestic and overseas markets so as to guarantee the leading role in the industry.

⑤The welding business is no longer in line with the overall Company's development strategy and it will gradually exit in future based on the reform in 2009.

2) Enhance the management ability and further improve the healthy image of the Company

①Promote the importance of information and realize efficient and timely transfer of information.

②Launch the EXPO security organization system, set up work plans, promote the themes of the EXPO with multi-levels and multi-styles, be integrated in ideas, organizations and actions and endeavor to guarantee the EXPO security work.

③Improve the production security system management through signing the production security indicators; improve production security measures and system through strengthening evaluation process of safety and quality; implement the responsibility system for production security through production security training.

④ Put the emphasis on energy-efficiency, emission reduction and environmental protection. It requires us to formulate energy-efficiency and emission reduction measures. Also, the completion of energy-efficiency and emission reduction tasks shall be included in the performance evaluation of the management. We will strengthen the environmental protection measures and improve the Company's awareness of social responsibilities.

⑤ Strengthen the internal control. We will establish a long-term mechanism of internal control as the guidance, improve the internal control system according to the requirements of the basic regulations and form an independent, continuous evaluation monitoring system of internal control.

⑥ Improve the management of relationship with investors. We will give timely and proper introduction of the Company's business operation to the investors so as to assist them in updating the latest development in the Company. We will establish friendly and trusted relationships in order to build a good image in the capital market.

In 2010, we will face both opportunities and challenges. The Company's Board of directors requires the management to take the initiative, explore, innovate and target to achieve a breakthrough. With the aim of improving the competitiveness, profitability and health in the operation, the Company will remain confident and stable. The Company is expected to achieve revenue of RMB11.581 billion and operating profits of RMB2.243 billion in 2010.

5) Whether the Company prepares and discloses the profit forecast for the new financial year: No

(II) Investments of the Company

Unit: RMB 10,000

Long-term equity investments during the reporting year	113,149.47
Increase/decrease compared with the prior year	2,098.76
Increase/decrease compared with the prior year (%)	1.89

Invested Companies

Name	Core Business	Percentage of equity ownership (%)
Shanghai Mitsubishi Elevator Co., Ltd.	Manufacturing and selling of elevators, escalators, BMS components with installation, repairing and maintenance services	52
Mitsubishi Electric Shanghai Electric Elevator Co., Ltd.	Manufacturing and selling of elevators, escalators, BMS components with installation, repairing and maintenance services	40
Shanghai Electric Group Printing and Packing Machinery Co., Ltd.	Production and sales of printing and packaging equipment and spare parts	100
Shanghai Electric Group General Refrigeration & Air-conditioning Equipment Co., Ltd.	Production and sales of refrigeration and air-conditioning equipments	100

Shanghai Electric Hydraulics Pneumatics Co. Ltd	Manufacturing and selling of hydraulic pumps, hydraulic valves, hydraulic kits, pressure reducers, pneumatic parts and components	100
Shanghai Green Continent Industrial Co., Ltd.	Investment in man-made panel enterprises and sales of man-made panels	100
Shanghai Welding Equipment Co., Ltd.	Production and sales of welding material and equipment	100
Shanghai Jintai Engineering Machinery Co., Ltd.	Production and sales of underground construction machines, pile drivers, mechanical construction drilling machine, well drilling machine, geological exploration equipment and mine machinery	94.79
Shanghai Wood-based Panel Machinery Co., Ltd.	Production and sales of man-made panel equipment	30
ABB Electrical Machines Ltd.	Production and sales of electric motors, power generators, and components	25
Shanghai Marathon-Genxin Electric Co., Ltd.	Production and sales of electric motors, electronics and mechanical units	45
Shanghai Ri Yong-JEA Gate Electric Co., Ltd.	Manufacturing and selling electronic actuators for automobile seat regulator and window winder, cooling fan series and blowers for new automobile engines and automotive electronics	40
Shanghai Electric Group Finance Co., Ltd.	Provision of financial business to the members of Shanghai Electric group with the permission from People's Bank of China	2.625

1. Use of proceeds raised from the capital market

During the reporting year, the Company did not raise any proceeds from the capital market or utilise previous raised proceeds in the current period.

2. Use of proceeds not raised from the capital market

For details of proceeds not raised from the capital market during the reporting year, please refer to the section on "Significant Matters" in this report.

(III) Statement of the Board's discussion results of reasons and impact of changes in accounting policies and accounting estimates, corrections of significant accounting errors, supplement of significant missing information and amendments to forecasts, and the measures taken towards the responsible person

The group's subsidiary Shanghai Mitsubishi Elevator Co., Ltd. has commitments of product warranty and maintenance in the warranty period per product sale and installation contracts. As the related costs for the product warranty and maintenance were not significant in the previous years, they were recognized as incurred.

With the continuous sales growth of the subsidiary and in response to fierce market competition, the warranty period and the workload of maintenance in the warranty period have shown growing trends. Also, the subsidiary has gained more reliable information and more experience on the estimation of the costs for product warranty and maintenance. Therefore from this year onwards, the costs for product warranty and maintenance of elevators have been re-estimated. The change in accounting estimates truly and better reflects the financial position and operating results of the subsidiary.

The above change in accounting estimates reduced the net profit in 2009 by RMB61,270,550.00, out of which the net profit attributable to the shareholders of the parent was reduced by RMB31,860,686.00.

(IV) Routines of Board of directors

1. Board meetings and resolutions

Session	Date	Resolutions	Newspaper with resolutions disclosed	Disclosure date
The 22rd Session of the 5th Board Meeting	24 Feb. 2009		China Securities Journal, Shanghai Securities News and Wen Wei Po	27 Feb. 2009
The 23th Session of the 5th Board Meeting	9 Apr. 2009		China Securities Journal, Shanghai Securities News and Wen Wei Po	11 Apr. 2009
The 24th Session of the 5th Board Meeting	22 Apr. 2009	The Company's First Quarter Report in 2009		
The 25th Session of the 5th Board Meeting	27 Apr. 2009		China Securities Journal, Shanghai Securities News and Wen Wei Po	29 Apr. 2009
The 1st Session of the 6th Board Meeting	21 May 2009		China Securities Journal, Shanghai Securities News and Wen Wei Po	22 May 2009
The 2rd Session of the 6th Board Meeting	22 Jul. 2009	<p>1.Approved Shanghai Mitsubishi Elevator Co., Ltd. to invest RMB89.5 million in projects for expansion of production capacity of escalators;</p> <p>2.Approved Shanghai Electric Group Printing and Packaging Machinery Co., Ltd. (hereinafter refer to Printing and Packaging Co.) to adjust the additional capital investment in Akiyama International Co., Ltd (hereinafter refer to Akiyama International);</p> <p>The 22nd session of the 5th board meeting approved Printing and Packaging Co. to increase additional capital investment in Akiyama International, amounted to RMB0.2</p>		

		<p>billion. Amendment: the additional capital investment should be performed jointly by the Printing and Packing Co. and Shanghai Electric International Economic & Trading Co., Ltd. with the same amount of RMB 0.1 billion each and ownership of 50%.</p> <p>3. Approved the SMEIC's additional capital investment in the Printing and Packaging Co.; The 22nd session of the 5th board meeting approved the investment amounted to RMB350 million, including RMB150 million used in the Printing and Packaging Co.'s equity acquisition of Shanghai Guanghua, Akiyama International and Shanghai Purlux from overseas investors and the other RMB200 million used in Printing and Packaging Co.'s additional capital investment in, Akiyama International. Considering Printing and Packaging Co.'s adjustment of the investment in Akiyama International, SMEIC adjusted its investment amount in Printing and Packing Co consequently. The RMB150 million investment was maintained while the RMB200 million investment was reduced to RMB 100 million, thereafter the total investment from SMEIC in Printing and Packing Co. was reduced from RMB350 million to RMB250 million.</p> <p>4. Approved Shanghai Yawa Printing Machinery Co., Ltd to sell its 23.14% shares of Shanghai Bernal Printing and Packaging Co. at a price no less than RMB 7.3 million.</p> <p>5. Approved Shanghai Welding Equipment Co., Ltd. to sell its 20% shares of Shanghai HaiShuang Co., Ltd at a price no less than RMB0.2076 million.</p> <p>6. Approved Shanghai Wood-based Panel Machinery Co., Ltd. to sell its 51% shares of Kunshan Dahua Wood-based Panel Machinery Co., Ltd. at a price no less than RMB0.9524 million.</p> <p>7. Approved Shanghai Cimic Welding Consumables Co., Ltd. to decrease its</p>		
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		40% shares of investment in Shanghai Cimic Welco Welding Co., Ltd. at a price no less than RMB2.7568 million.		
The 3th Session of the 6th Board Meeting	12 Aug. 2009	2009 Interim Report and Abstracts		
The 4th Session of the 6th Board Meeting	9 Sep. 2009	Approved the establishment of the new logistics center by Mitsubishi Electric Shanghai Electric Elevator Co., Ltd.		
The 5th Session of the 6th Board Meeting	21 Oct. 2009		China Securities Journal, Shanghai Securities News and Wen Wei Po	24 Oct. 2009
The 6th Session of the 6th Board Meeting	30 Dec. 2009		China Securities Journal, Shanghai Securities News and Wen Wei Po	31 Dec. 2009

2. Execution of resolutions of the general meetings by the Board of directors

On 21 May 2009, the resolution of the 2008 Annual General Meeting on the profit distribution of 2008 was reviewed and approved as follows:

The Company will distribute cash dividends of RMB1 (tax inclusive) per 10 shares based on the total shares of 1,022,739,308 as at the end of 2008 to all shareholders, amounted to RMB102,273,930.80.

Date of registration: 3 July 2009 for A share; 8 July 2009 for B share (3 July as the last transaction date).
Ex-dividend date: 6 July 2009 for both A share and B share. Dividend payment date: 10 July 2009 for A share; 15 July 2009 for B share.

3. Establishment and content of related working mechanism of the Board's audit committee and summary of fulfillment of duties

The Company's audit committee under the Board of directors played a significant role in the audit of the 2009 financial statements. Before the auditor performed the field work, the audit committee discussed the annual audit plan with the auditors and set a deadline to deliver the auditors' report. During audit, the committee adequately communicated the issues incurred in the annual audit with the auditors. After the completion of the audit work, the auditors exclusively reported the audit issues to the committee. The committee believed that the financial statements give a true and fair view of the state of affairs of the Company as at 2009 year end and the profit and the cash flows for the year then ended; and the auditors fulfilled its duties in the audit in accordance with the professional principles of independence, objectivity and justice and performed the engagement well. The committee has assessed the accounting firm to be hired in 2010 and submitted to the Board of directors for review.

4. Summary of fulfillment of duties by the remuneration committee of the Board of directors

In the reporting year, the remuneration committee of the Board of directors reviewed and approved the *Provisional Rules on the Management Remuneration Incentives and Performance Evaluation of the Management of the Subsidiaries of SMEIC* and *Implementation of Remuneration and Performance Evaluation*

of *Corporate Staff of SMEIC*, which provide a systematic way to implement scientific management of remuneration and performance evaluation.

(V) Proposal of profit distribution or transfer of capital reserves to share capital

As audited by Ernst & Young Hua Ming, the net profit of the Company in 2009 is RMB806,759,583.20, in which, the net profit attributable to the equity shareholders of the parent is RMB465,741,408.69. In accordance with the articles of association, the Company appropriated statutory surplus reserve of RMB133,193,309.78 and staff bonuses and welfare funds of RMB29,739,440.27; minus the 2008 dividend of ordinary shares of RMB102,273,930.80, plus the opening retained earnings of RMB1,257,123,188.75 and other comprehensive income of RMB4,132,155.55, retained earnings was RMB1,461,790,072.14 as at the year end of 2009.

The proposal of profit distribution of 2009 is to distribute cash dividends of RMB1 (tax inclusive) per 10 shares based on the total shares of 1,022,739,308 at the end of 2009 to all shareholders, totalling RMB102,273,930.80. The remaining retained earnings of RMB1,359,516,141.34 will be carried forward.

The proposal shall be submitted to 2009 Annual General Meeting for approval.

(VI) Dividends in the prior three years

Unit: RMB

Year	Cash dividend (before tax)	Net profit in the consolidated financial statements	Cash dividend as a percentage of net profit (%)
2006	85,228,275.70	401,514,527.35	21.23
2007	85,228,275.70	605,580,532.10	14.07
2008	102,273,930.80	646,604,833.81	15.82

(VII) Establishment and Improvement for the regulations of external information users

The Company strictly implements the regulations on information submission to external units. The Company has strictly enhanced management on all kind of sensitive information. The external units and the related persons subject to submission requirements by the laws and regulations are registered as insiders. The Company treats the information to be submitted as confidential information and requires the related external units and persons to perform confidentiality obligations.

IX Report of the Supervisory Committee

(I) Working progress of the Supervisory Committee

Number of meetings held	6
Meetings of the Supervisory Committee	Subject matters of the meetings of the Supervisory Committee
The Company's 11th Session of the 5th meeting of the Supervisory Committee was held in the conference room on 9 April 2009, with all of four supervisors participated. It was chaired by the Chairman Yu Yingui.	The following resolutions were approved: 1.The report of the Supervisory Committee in 2008 was reviewed and approved, and the 2008 annual general meeting was submitted for approval. 2.The Supervisory Committee reviewed and approved the 2008 annual report and report summary approved by the 23rd Session of the 5th meeting of Board of Directors, 2008 report of Board of Directors, 2008 report of general manager, 2008 report on financial budget and proposal of profit distribution of 2008. The Supervisory Committee was of the opinion that: (1) The financial indicators of 2008 annual report and its summary were audited by Ernst & Young Hua Ming who issued audit report with unqualified opinion. The annual report presents

	<p>fairly the financial position of the Company and the financial results in 2008. (2) The formulation of the 2008 annual report and the review procedure by the 23rd Session of the 5th meeting of Board of directors were complied with the related laws and regulations, articles of association and internal management system of the Company. (3) The content and format of the annual report met the requirement of Shanghai Stock Exchange and China Securities Regulatory Commission. (4) The breach of confidentiality regulations by the personnel was not found.</p>
<p>The Company's 12th Session of the 5th Meeting of the Supervisory Committee was held in the conference room on 22 April 2009, with all of four supervisors participated. It was chaired by the Chairman Yu Yingui.</p>	<p>All members of the Supervisory Committee seriously reviewed the content and format as well as the formulation procedure of the first quarterly report of 2009 and attended the 24th Session of the 5th meeting of Board of Directors, and made the following comments: (1) The formulation procedure of the first quarterly report of 2009 and review procedure of the report by the 24th Session of the 5th meeting of the Board of directors complied with the related laws and regulations, articles of association and internal management system of the Company. (2) The content and format of the quarterly report met the requirements of Shanghai Stock Exchange and China Securities Regulatory Commission. The report fairly presented the operational results and financial position of the first quarter in 2009. (3)The breach of confidentiality regulations by the personnel was not found.</p>
<p>The Company's 13th Session of the 5th Meeting of the Supervisory Committee was held in the conference room on 27 April 2009, with all of four supervisors participated. It was chaired by the Chairman Yu Yingui.</p>	<p>The meeting passed the resolutions on the proposal for election at office after the term expiration. The term of the 5th Supervisory Committee would expire on 25 May 2009, and the election would be held in the 2008 Annual General Meeting which would generate the 6th Supervisory Committee. Approved by the committee, Mr. Yu Yingui, Mr. Yuan Mifang and Mr. Zhen Jinrong were recommended as the candidates for the 6th Supervisory Committee and the proposal was submitted for approval in the 2008 Annual General Meeting. According to the articles of association, Mr. Rui Hejian and Mr. Jiang Ancheng were recommended as the staff representatives in the 6th Supervisory Committee after discussions by the representatives in the trade union and the staff representatives.</p>
<p>The Company's 1st Session of the 6th Meeting of the Supervisory Committee was held in the conference room on 21 May 2009, with all of five supervisors participated. It was chaired by the Chairman Yu Yingui.</p>	<p>The meeting passed the resolution on the election of Mr. Yu Yingui as the Chairman of the 6th Supervisory Committee.</p>
<p>The Company's 2nd Session of the 6th Meeting of the Supervisory Committee was held in the conference room on 12 August 2009, with all of five supervisors participated. It was chaired by the Chairman Yu Yingui.</p>	<p>The Supervisory Committee reviewed and approved the interim report of 2009 and its summary approved by the 3rd Session of the 6th of meeting of Board of directors. The Supervisory Committee was of the opinion: (1) the financial indicators of the interim report of 2009 and its summary presented fairly the financial position and operational results of the first half year of 2009.</p>

	<p>(2) The formulation procedure of the interim report of 2009 and review procedure of the report by the 3rd session of the 6th meeting of the Board of directors complied with the related laws and regulations, articles of association and internal management system of the Company. (3) The content and format of the interim report met the requirements of Shanghai Stock Exchange and China Securities Regulatory Commission. (4) The breach of confidentiality regulations by the personnel was not found.</p>
<p>The Company's 3th Session of the 6th Meeting of the Supervisory Committee was held in the conference room on 21 October 2009, with all of five supervisors participated. It was chaired by the Chairman Yu Yingui.</p>	<p>The Supervisory Committee reviewed and approved the third quarterly report of 2009 approved by the 5th session of the 6th of meeting of the Board of directors. The Supervisory Committee was of the opinion: (1) the financial indicators of the third quarterly report of 2009 presented fairly the financial position and operational results of the first 9 months of 2009. (2) The formulation procedure of the third quarterly report of 2009 and review procedure of the report by the 5th session of the 6th meeting of the Board of directors complied with the related laws and regulations, articles of association and internal management system of the Company. (3) The content and format of the interim report met the requirements of Shanghai Stock Exchange and China Securities Regulatory Commission. (4)The breach of confidentiality regulations by the personnel was not found.</p>

(II) Independent opinion of the Supervisory Committee on the legality of the Company's operation

The Company is operated legally in compliance with the State's laws and regulations and the Company's articles of association. The internal control system is complete and adequate. The decision-making process is strictly in compliance with the procedures of the State's laws and regulations and the Company's articles of association. The fulfillment of duties of directors and management does not violate any laws, regulations, the Company's articles and the benefit of the Company.

(III) Independent opinion of the Supervisory Committee on the Company's finance

During the reporting year, the Supervisory Committee inspected and supervised the finance of the Company. The Supervisory Committee expressed that the 2009 annual report presented fairly the financial position and operational results of the Company, which was audited by Ernst & Young Hua Ming with an unqualified opinion.

(IV) Independent opinion of the Supervisory Committee on the use of the latest proceeds raised from the capital market

78% of latest proceeds raised from the capital market was utilised in line with the Company's committed projects. Considering the effects of the changes in external environment on the Company's development, 22% of proceeds raised were adjusted to invest into other projects, in order to protect the wider shareholders' interests and increase the efficiency. All adjustments have been approved by the general meetings and implemented accordingly. The Supervisory Committee was of the opinion that the procedures with which the Company adjusted the use of proceeds raised are in line with the applicable regulations stipulated in the relevant laws and rules, and the adjustments made were reasonable.

(V) Independent opinion of the Supervisory Committee on the acquisitions and disposals of assets

The transaction prices on the acquisitions and disposals of assets were reasonable with no insider transaction involved.

(VI) Independent opinion of the Supervisory Committee on the related party transactions

The Company's voting procedures on related party transactions were in line with the relevant regulations, and fair to the Company and all of its shareholders, without disadvantaging the interests of the Company and other shareholders, especially the minority shareholders.

X. Significant Matters

(I) Significant lawsuit or arbitration

The Company had no material lawsuit or arbitration during the reporting year.

(II) Bankruptcy and restructuring

The Company had no bankruptcy and restructuring events during the reporting year.

(III) Shareholding in other listed companies and financial institutions

1. Shareholding status in other listed companies

Unit: RMB

Stock Code	Stock Abbreviation	Initial Investment amount	Equity shares percentage (%)	Carrying amount at the end of the reporting year	Profits and losses in the reporting year	Changes of ownership interests in the reporting year	Classified as	Source of the shares
600618	Chlor-alkali Chemicals	1,240,000	0.03	2,927,232		1,863,400	Available-for-sale financial assets	Purchase
600633	White Cat	7,461,700	1.44	17,288,568		6,332,568	Available-for-sale financial assets	Purchase
600665	Tiandiyuan	1,400,000	0.09	4,395,600		2,494,800	Available-for-sale financial assets	Purchase
600845	Baoxin Software	2,909,090.91	0.31	25,248,000		12,944,000	Available-for-sale financial assets	Purchase
000501	Ewushang A	353,400.00	0.03	2,217,141.72		1,468,147.68	Available-for-sale financial assets	Purchase
601328	Bank of Communications	1,893,780.00	0.003	14,755,702.50		7,275,271.50	Available-for-sale financial assets	Purchase
Total		15,257,970.91	/	66,832,244.22		32,378,187.18	/	/

(IV) Assets transactions

1、 Assets acquisition

Unit: RMB 10,000

Counter party or the ultimate holding party	Assets acquired	Acquisition date	Acquisition price	Net profit contributed to the Company since the acquisition date to the year end	Whether a related party	Pricing principle	Whether the property right has been transferred	Whether the creditor's right or debt has been transferred	Proportion of net profit contributed to the total net profit of the Company
Ziwen Investment Co., Ltd.	50% of the equity interest of Shanghai Purlux Machinery Co., Ltd.	31 August 2009	8,592	30.34	No	Determined by the negotiation of the two parties based on valuation of the assets appraisal	Yes	Yes	0.065
Ziwen Investment Co., Ltd.	50% of the equity interest of Shanghai Guanghua Printing Machinery Co., Ltd.	31 August 2009	19,972	-1,044.10	No	Determined by the negotiation of the two parties based on valuation of the assets appraisal	Yes	Yes	-2.24
BOWTON LIMITED	50% of the equity interest of Akiyama International Corporation	31 August 2009	3,090	-3090	No	Determined by the negotiation of the two parties based on valuation of the assets appraisal	Yes	Yes	-6.63
Hong Kong Huawei Trading Co., Ltd.	22.14% of the equity interest of Shanghai Shen Wei Da Machinery Co., Ltd.	31 August 2009	1,566.56	-457.37	No	Determined by the valuation of asset appraisal	Yes	Yes	-0.98
U.S. Shanghai Mechanical and Electric Trading Co., Ltd.	2.86% of the equity interest of Shanghai Shen Wei Da Machinery Co., Ltd.	31 August 2009	202.36	-59.08	No	Determined by the valuation of asset appraisal	Yes	Yes	-0.13

2、 Assets sales

Unit: RMB 10,000

Counter Party	Assets sold	Signing date of the	Sales price	Whether a related	Pricing principle	Whether the property right	Whether the creditor's right
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		property transaction contract		party transaction		has been transferred	or debt has been transferred
Ziwen Investment (Hong Kong) Co., Ltd.	10% of the equity interest of Shanghai Purple Magna Machinery Co., Ltd.	27 May 2009	1,154	No	Determined by the valuation of asset appraisal	No	No

Note: As at 31 December 2009, the legal procedures of the transfer of the 10% of the equity interest of Shanghai Purple Magna Machinery Co., Ltd. have not been completed.

(V) Significant related party transactions during the reporting year

1. Related party transactions relating to daily business operation

Unit: RMB 10,000

Related party	Relationship	Type	Content	Pricing principle	Amount	Proportion in the same category (%)	Settlement method
Shanghai Electric Group Finance Co., Ltd.	Subsidiary of the parent	Deposit	Bank deposits	State regulation	127,247.37	23.86	Cash
Shanghai Electric Group Finance Co., Ltd.	Subsidiary of the parent	Loan	Short-term loans	State regulation	38,550.00	87.51	Cash
Shanghai Electric Leasing Co., Ltd	Subsidiary of the actual controller	Sales of goods	Underground construction machinery	Market price	16,833.76	1.73	Cash
Shanghai Shiyin Machinery Co., Ltd.	Subsidiary of the actual controller	Purchase of goods	Marking pressing accessories	Market price	6,438.91	0.72	Cash
Shanghai Zhenhua Bearing Works	Subsidiary of the actual controller	Purchase of goods	Bearings	Market price	2,227.05	0.25	Cash

2. Related party transactions relating to asset acquisitions and sales

Unit: RMB 10,000

Related Party	Relation-ship	Type	Content	Pricing principle	Book value of the transferred asset	Appraised value of the transferred asset	Transaction price	Settlement method	Gain /loss from the transaction
Shanghai Electric (Group) Corporation	Actual controller	Sales of asset except the goods	Buildings of Shanghai Shen Wei Da Machinery Co., Ltd. Plastic Machinery Factory	Determined by the valuation of asset appraisal	717.40	2,725.12	2,725.12	Cash	1436
Shanghai Electric (Group) Corporation	Actual controller	Sales of asset except the goods	Buildings on Jing Gu Road of Shanghai Guanghua Printing Machinery Co., Ltd.	Transfer through the opening bid	4,388.99	8,065.04	8,065.04	Cash	

Note: as at 31 December 2009, the legitimate procedures of the transfer of the buildings on Jinggu Road of Shanghai Guanghua Printing Machinery Co., Ltd. have not been completed.

3. Other significant related party transactions

Shanghai Electric (Group) Corporation (“SE Corporation”) increased its investment in Akiyama International Corporation (“AIC”) by JPY2,700 million (equivalent to RMB200 million) unilaterally. Shanghai Electric Group Printing & Packaging Machinery Co., Ltd., as the wholly-owned subsidiary of SE Corporation, held 50% shares of AIC. After the capital increase, the share held by Shanghai Electric Group Printing & Packaging Machinery Co., Ltd. in AIC has decreased from 50% to 5%.

The paid-in capital of AIC was JPY1,050 million, which was equally owned by Shanghai Electric Group Printing & Packaging Machinery Co., Ltd. and Shanghai Electric International Economic and Trading Co., Ltd. The principal activities of the company are research and development, design, production and sales of the packaging machinery.

Shanghai Orient Certified Appraisal Co., Ltd verified the assets of AIC as at 30 June 2009 and issued a valuation report (*Hudongzhou Zi Ping Bao Zi No. DZ080533171*). It stated that the carrying amount of net assets of AIC was negative JPY500,476.6K and the appraisal value of net assets was JPY310, 669.8K, equivalent to RMB22,093.9K.

Shanghai Electric Group Printing & Packaging Machinery Co., Ltd., SE Corporation and Shanghai Electric International Economic and Trading Co., Ltd. signed *the Agreement of the Capital Injection to AIC* on 23 October 2009. The terms of the agreement are:

- (1) All parties agreed to increase the registered capital of AIC from JPY1.05 billion to JPY3.75 billion.
- (2) All parties agreed that SE Corporation should invest JYP2.7 billion in AIC unilaterally after the capital increase agreement was approved by the relevant Chinese government bureaus. Shanghai Electric Group Printing & Packaging Machinery Co., Ltd. and Shanghai Electric International Economic and Trading Co., Ltd. abandoned the rights to increase the investment in AIC.
- (3) All parties agreed that after the capital increase, SE Corporation held 90% of the shares, Shanghai Electric Group Printing & Packaging Machinery Co., Ltd. and Shanghai Electric International Economic and Trading Co., Ltd. equally held 5% shares respectively.
- (4) All parties agreed that the original shareholders of AIC should bear the profit or loss of AIC proportionally according to the percentage of ownership before the completion of the capital increase.

The purpose of the capital increase was to optimize the capital and asset structure of AIC, providing sufficient working capitals, paying off the long term liabilities, improving its financing capabilities and ensuring the requirement of business operations.

(VI) Significant contracts and the fulfillments

1. Trusteeship, contract and leasing

(1) Trusteeship

The Company had no trusteeship during the reporting year.

(2) Contracting

The Company had no contracting during the reporting year.

(3) Lease

The Company had no significant lease during the reporting year.

2. Guarantee

Unit: RMB 10,000

Guarantee provided by the Company to the subsidiaries	
Total guarantee provided by the Company to subsidiaries in the reporting year	46,439.30
Total balance of guarantee provided by the Company to subsidiaries at the end of reporting year	39,302.00
Company's total guarantee amount (including guarantee to its subsidiaries)	
Total guarantee provided	39,302.00
Including:	
Direct or indirect debt guarantee provided to entities whose asset-liability ratio exceeding 70%	13,000.00
Guarantee as a percentage to net assets (%)	7.94

3. Entrusted investment

The Company had no trusted investment during the reporting year.

4. Other significant contracts

The Company had no other significant contracts during the reporting year.

(VII) Fulfillment of commitments

1. Commitments made by the Company or shareholders holding more than 5% of shares in the reporting year or lasting till the reporting period

Committed Items	Content of commitments	Fulfillment of commitments
Equity reform commitment	Shanghai Electric Group Co., Ltd. will fully support its subsidiary SMEIC in industrial integration of the printing and packaging machinery business.	Shanghai Electric Group Co., Ltd. has fulfilled its commitment, supporting the Company in the acquisition of the foreign equity in the sheet-fed offset press business. This has created synergy and maximized the business value through the integration and improved its competitiveness.

(VIII) Appointment and discussions of auditor

Unit: RMB 10,000

Have other auditors been appointed	No
	Current auditor
Name of the auditor	Ernst & Young Hua Ming
Remunerations for the auditors	170
Term of the auditors	2 years

(IX) Sanction and rectification imposed on listed companies and their directors, supervisors, senior management, shareholders and substantial controller

The Company and its directors, supervisors, senior management, shareholders and the substantial controller received no inspection, administrative sanction, publicly notified warnings from CSRC, nor any public condemning from the Shanghai Stock Exchange.

(X) Other significant events

The Company had no other significant events during the reporting year.

(XI) Information disclosure index

Events	Names and pages of newspapers	Date	Website
Resolution on the first extraordinary annual general meeting	China Securities Journal B7, Shanghai Securities News C8、 Wen Wei Po C2	9 January 2009	Input stock code on the website of www.sse.com.cn to search for the announcement
Resolution on the 22nd Session of the 5th Meeting of Board of Directors	China Securities Journal D28、 Shanghai Securities News C32、 Wen Wei Po B6	27 February 2009	Ditto
Announcement of the external guarantee	China Securities Journal D28、 Shanghai Securities NewsC32、 Wen Wei Po B6	27 February 2009	Ditto
Summary of the 2008 annual report	China Securities Journal C1928、 Shanghai Securities NewsD14、 Wen Wei Po A18	11 April 2009	Ditto
Resolution on the 23th Session of the 5th Meeting of Board of Directors	China Securities Journal C19、 Shanghai Securities NewsD14、 Wen Wei Po A18	11 April 2009	Ditto
Resolution on the 11th Session of the 5th Meeting of Supervisory Committee	China Securities Journal C19、 Shanghai Securities NewsD14、 Wen Wei Po A18	11 April 2009	Ditto
Announcement of the external guarantee	China Securities Journal C1928、 Shanghai Securities NewsD14、 Wen Wei Po A18	11 April 2009	Ditto
Announcement of the daily related party transactions	China Securities Journal C19、 Shanghai Securities NewsD14、 Wen Wei Po A18	11 April 2009	Ditto
Announcement of the first quarterly report of 2009	China Securities Journal D18、 Shanghai Securities NewsC32、 Wen Wei Po B4	24 April 2009	Ditto
Resolution on the 23th Session of the 5th Meeting of Board of Directors and notice for the 2008 Annual General Meeting	China Securities Journal B7、 Shanghai Securities NewsC91、 Wen Wei Po A11	24 April 2009	Ditto
Resolution on the 13th Session of the 5th Meeting of Supervisory Committee	China Securities Journal B7、 Shanghai Securities NewsC91、 Wen Wei Po A11	24 April 2009	Ditto
Resolution on the 2008 Annual General Meeting	China Securities Journal A11、 Shanghai Securities NewsC9、 Wen Wei Po A26	22 May 2009	Ditto

Resolution on the 1th Session of the 6th Meeting of Board of Directors	China Securities Journal A11、Shanghai Securities NewsC9、Wen Wei Po A26	22 May 2009	Ditto
Resolution on the 1th Session of the 6th Meeting of Supervisory Committee	China Securities Journal A11、Shanghai Securities NewsC9、Wen Wei Po A26	22 May 2009	Ditto
Announcement of the profit appropriation of 2008	China Securities Journal D19、Shanghai Securities NewsC9、Wen Wei Po B4	30 June 2009	Ditto
Announcement of the circulation of restricted shares	China Securities Journal A10、Shanghai Securities NewsC56、Wen Wei Po B8	11 August 2009	Ditto
Announcement of the Summary of the 2009 interim report	China Securities Journal D19、Shanghai Securities NewsC16、Wen Wei Po A18	14 August 2009	Ditto
Announcement of the third quarterly report of 2009	China Securities Journal D15、Shanghai Securities NewsB24、Wen Wei Po A20	23 October 2009	Ditto
Resolution on the 5th Session of the 5th Meeting of Board of Directors	China Securities Journal C2、Shanghai Securities NewsD25、Wen Wei Po A18	24 October 2009	Ditto
Announcement of the related party transactions	China Securities Journal C2、Shanghai Securities NewsD25、Wen Wei Po A18	24 October 2009	Ditto
Resolution on the 6th Session of the 6th Meeting of Board of Directors	China Securities Journal D13、Shanghai Securities NewsB19、Wen Wei Po B11	31 December 2009	Ditto

XI. Financial Report

The Company's annual financial statements have been audited by Zhou Lin and Xu Lele, Certified Public Accountants, Ernst & Young Hua Ming, who have issued auditors' report with standard unqualified opinion.

(I) Auditors' report

(II) Financial statements

(III) Notes to financial statements

XII. References

1. Financial statements signed and chopped by Chairman of the Board, Chief Accountant and Accounting Supervisor;
2. Original auditors' report signed and chopped by Certified Public Accountants and CPA firm;
3. Master copy of the Company's documents and original announcements publicly disclosed in the newspapers designated by CSRC in the reporting period;
4. Annual report signed by the Directors, Supervisors and Senior management; and
5. Articles of Association of the Company.

Xu Jianguo

Chairman of the Board

Shanghai Mechanical & Electrical Industry Co., Ltd.

7 April 2010