# 2015 ANNUAL REPORT

## Shanghai Electric Group Company Limited

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

www.shanghai-electric.com

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# CHAIRMAN'S STATEMENT

CHAIRMAN AND CEO Huang Dinan

***In 2015, Shanghai Electric stayed on the track of general thought and strategic structure of "adhering to the development theme of innovation and development, insisting on pushing ahead development with a direction towards high-end technology, asset-light business structure, group level centralized management and controls, simplified operation structure, as well as intelligent products" and insist on the concept of "One Company". Over the past year, we experienced a fierce challenge of overcapacity and sluggish market demand while we maintained a steady economic growth. During the reporting period, the Company achieved a turnover of RMB78,009 million, representing an increase of 1.6% over the corresponding period of preceding year; the profit attributable to owners of the Company amounted to RMB 2,083 million, representing a decrease of 17.0% over the corresponding period of preceding year.***

## New Energy and Environmental Protection Equipment

In 2015, the overall global nuclear power development revived gradually. In domestic field, eight units of nuclear power plant equipment have been added and three new projects were approved for construction. At the same time, along with China's self-developed technology of "Hualong No.1" and its safety and economic advantages recognized by more and more countries, particularly the emerging countries, and facilitated by the national strategy of "One Belt, One Road", the approach of "Go Global" in relation to the domestic nuclear power production chain has been a key national diplomatic component while the K2/K3 projects in Pakistan have already commenced construction. During the reporting period, we have successfully completed the manufacturing and delivery of the gen III nuclear power AP1000 and EPR technology key nuclear island equipment, while we have also completed the manufacturing of the first pressure vessel for gen IV nuclear power high temperature gas-cooled reactor in the world and we continued to consolidate our leading position in domestic nuclear power product technology sector. During the reporting period, AREVA NP SAS Company has sub-contracted six units of nuclear power steam generators to us through processing arrangement. The project has become an important step for us to enter into the international market of nuclear island major equipment manufacturing. At the same time, we will actively develop a cooperative platform for research and development with an aim to cultivate our innovative capacities in terms of the integration of design, equipment and service, and to shift from merely manufacture and sale of nuclear power equipment to a business development model of "equipment integration plus technology service".

During the reporting period, the wind power market in China as a whole was in a good condition. We made efforts to increase the market share by offering customers full operating cycle and all-round services, together with reliable products and high-quality services. We proactively enhanced our capabilities in research and development of wind power technologies and construction services, and explored the business model of the investment and operation and construction contracting of wind farms. Offshore wind power has gradually become a renewable power-generating method with mature technologies. It is expected that it will become one of the most potential clean energy generating industries in China in the future. We proactively explore the offshore wind turbines market, and we have successfully been awarded tenders for offshore wind turbines contracts from Jiangsu Rudong, Jiangsu Binhai and Shanghai Lingang, with up to 500MW of total plant equipment capacity. Our market share in domestic offshore wind power market reached over 60%. During the reporting period, we received wind power equipment orders with a value of RMB11.0 billion in aggregate, and achieved a new high record in our history.

During the reporting period, our environmental protection industry consists of three main businesses, namely solid waste treatment, water treatment and distributed energy. We have integrated the comprehensive development model with technologies, equipment and engineering services and investment operation and enhanced market exploration efforts. In domestic markets, we have entered into and commenced a series of projects regarding biomass incineration for power generation, photovoltaic power generation, power plant desulfurization and denitration and water treatment in regions such as Jiangsu, Anhui and Henan, etc. In overseas markets, we have also proactively explored and upgraded the contracting capabilities of environmental protection engineering.

During the reporting period, the new energy and environmental protection equipment achieved a turnover of RMB12,092 million, representing an increase of 23.7% as compared with that of the same period of preceding year, of which wind power products recorded a year-on-year increase of 44.6%. The gross profit margin for this segment was 10%, representing a year-on-year increase of 2.8 percentage points, mainly due to increase of gross profit margin by 7.1 percentage points upon high concentration of delivery of certain projects of the environmental protection equipment business during the year.

## High Efficiency and Clean Energy Equipment

During the reporting period, under the macroscopic backdrop of prolonged downturn in domestic thermal power market, we took proactive actions and were gradually transforming from the model of passive product development pushed by market demands to an active innovation model with product research and development leading the market demands. During the reporting period, the technological development of the 1000MW ultra supercritical second reheat coal-fired power generation equipment designed and manufactured by the Company was successfully tested for functionality, which has currently been the best coal-fired power plant equipment with the lowest coal consumption and best overall emission standard, globally. Meanwhile, by leveraging on the national strategy of "One Belt, One Road", we achieved a breakthrough in the overseas markets and will invest in and construct a power plant with two sets of 660MW power generating units at the mine mouth of Thar Coalfield Block I in Pakistan. This power plant project will install the 660MW high parameter and supercritical power generation units we made, and will lay a solid foundation for our further expansion in overseas supercritical coal-fired power equipment market. In the gas turbine area, by taking the advantage of our acquisition of 40% equity interest in Ansaldo Energia S.p.A. ("Ansaldo") in Italy, and through the concerted efforts with Ansaldo in the heavy gas turbine market, the Company enhanced its capabilities in absorbing and mastering gas turbine design skills and core technologies of providing such services, as well as accelerating the accomplishment of proprietary development of the Company's gas turbine business, thereby improved the Company's competitive strength in the global energy equipment sector. During the reporting period, we have undertaken the long-term maintenance order for gas turbine in Shanghai Electric Power's Minhang Project, signifying that Shanghai Electric has become the only company which has the comprehensive technology in gas turbine power equipment in China, and an equipment manufacturing corporate which provides equipment as well as comprehensive repair and maintenance services.

During the reporting period, we continued to push on the development of high voltage technology, power electronics technology, smart grid building and modern services for the power transmission and distribution equipment businesses. We appropriated much effort in developing new technologies and new products of intelligent power grid and the power transmission and distribution equipment market, improving the sales network, strengthening market segmentation management and monitoring breakthrough in key projects and areas. We also enhanced the end-user market tracking, expanded our product range and enlarged our market share in the power transmission and distribution equipment business.

During the reporting period, the high efficiency and clean energy equipment segment achieved a turnover of RMB28,697 million, representing basically the same level as that of the same period for preceding year.  The gross profit margin for this segment was 16.8%, representing a year-on-year reduction of 0.1 percentage point.

## Industrial Equipment

In 2015, the property market was under the continuing impact of structural adjustment in the domestic economy, showing slower development pace, of which it showed a year-on-year decrease in both new construction site

area of property and saleable area of property for resale. Despite the relevant information of property recorded a year-on-year decrease, the month-on-month information began to revive with a short-term steady movement. In middle and long term, the continuing effort on promotion of new urbanization and investment in public transportation and infrastructure, energy conservation and upgrading as well as replacement and retrofit of old elevators, were conducive to sustainable development of the elevator industry. During the reporting period, while accommodating conditions in the market, Shanghai Mitsubishi Elevator Co., Ltd. ("Shanghai Mitsubishi Elevator") attached more importance to maintaining and developing relationships with major strategic customers. While maintaining close cooperation with core strategic partners including Wanda, Evergrande, China Overseas, Greenland, Country Garden, COSCO, Longfor, Forte and Luneng, etc., we introduced new cooperation relationships with Vanke and CITIC, while staying vigilant to the core and large projects in second and third tier cities. We received orders for significant projects including Dongguan International Trade Centre, One Shenzhen Bay, Beijing Samsung Mansion, Qingdao International Shipping Center, Shenzhen Construction Bank Tower, Shijiazhuang New Cooperation Tower, Luoyang Zhengda International City Plaza, Wuhan Tianhe Airport Terminal 3, Xiamen Metro Line 1, Chengdu Metro Line 7 and Chongqing West Railway Station, etc. During the reporting period, Shanghai Mitsubishi Elevator continued to explore industrialized development of its service business. While on one hand maintaining continuous and fast growth in revenue from installation and repairs and maintenance services due to increase in total sales volume over past years, and on the other hand accelerating the establishment of outlets taking maintenance and repair orders, Shanghai Mitsubishi Elevator improved the success rate and efficiency in taking maintenance orders by applying information technology infrastructure establishment supplemented by various formats in delivering the maintenance works, resulting in apparent increase in business from repairs of existing elevators, and retrofit of obsolete elevators. In 2015, Shanghai Mitsubishi Elevator generated revenue of RMB4.088 billion from service businesses including installation, repairs and maintenance of elevators, accounting for more than 23% of the operating revenue of the elevator business. It is expected that the revenue from the service business of Shanghai Mitsubishi Elevator will maintain steady growth.

During the reporting period, we adhered to the strategy of the overall exit from the printing and packaging equipment business and actively accelerated reforms and adjustments of the overall printing and packaging equipment business. Shanghai Mechanical & Electrical Industry Co., Ltd. ("SMEI") a subsidiary of the Company, completed a debt-to-equity swap (the conversion of debt interest to equity interest in Goss International Corporation), together with Shanghai Electric (Group) Corporation. This was followed by a disposal of SMEI's entire shareholding in Goss International Corporation which led to completion of the strategic adjustment in the printing and packaging equipment business.

During the reporting period, the industrial equipment segment achieved a turnover of RMB23,945 million, representing a year-on-year reduction of 8.0%, mainly due to the completion of adjustment strategy in relation to the printing and packaging equipment business. The gross profit margin for this segment was 20.7%, representing a year-on-year reduction of 0.3 percentage point.

## Modern Services

The major businesses of the modern services segment are power plant engineering business and financial services business which provides support to principal businesses of the Group for development. During 2015, following the national strategy of "One Belt, One Road", more than 50 countries and regions involved in the "One Belt, One Road" have been regarded as the core markets of our engineering industry and it is planned that overseas sales network in Malaysia, Turkey, Poland, Pakistan and Columbia will be added, so as to actively promote the construction of sales networks and achieve the sales capacity in multiple regions. We will explore new energy and distributed energy markets instead of focusing merely on coal-fired market. We will also strive to facilitate the business model of "integrating business and finance" while enhancing the effort on project investment and project financing. Our financial service platform has continued the expansion of its services and functionality, and has been gradually transformed from single internal banking service provider into a comprehensive financial services provider with diversified financial services. Our financing company will further improve the construction of global treasury capability of the Group. Our leasing company will further support the core businesses of the Group while our insurance brokerage company will further enhance the centralized management over the insurance affairs of the Group.

During the reporting period, the modern services segment achieved a turnover of RMB17,824 million, representing a year-on-year reduction of 1.7%, mainly due to reduction in the revenue from power plant engineering business during the reporting period. The gross profit margin of this segment was 15.4%, representing a year-on-year reduction of 1.0 percentage point.

Looking forward, we will take an innovative and positive stance to cope with difficulties, and adapt ourselves to economic development under the new normal phase actively. We will enhance our asset quality, maintain a healthy position and improve our competitiveness and profitability to persevere with our goal of building Shanghai Electric as a global and multinational group with international competitiveness and brand influence.

Lastly, I would like to take this opportunity to express my gratitude towards our shareholders for their support to and care for the Group over the past year. I would also like to thank the directors, the supervisors, the management team and all the staff for the efforts and dedication offered during their work.

Let's join our hands and work hard together to achieve a new record of brilliant results!

**Huang Dinan**
Chairman and CEO
Shanghai, PRC, 30 March, 2016

# CORPORATE PROFILE

## Corporate Information

| | |
|---|---|
| **Legal name of the Company (Chinese)** | 上海電氣集團股份有限公司 |
| **Abbreviated legal name of the Company (Chinese)** | 上海電氣 |
| **Legal name of the Company (English)** | Shanghai Electric Group Company Limited |
| **Abbreviated legal name of the Company (English)** | Shanghai Electric |
| **Company's legal representative** | Huang Dinan |
| **Company's authorized representatives** | Huang Dinan, Zheng Jianhua |
| **Company's alternative authorized representative** | Li Chung Kwong Andrew (FCCA, FCPA, ACA, CIA) |
| **Company Secretary** | Li Chung Kwong Andrew (FCCA, FCPA, ACA, CIA) |

## Contact Person and Contact Details

| | |
|---|---|
| | Secretary to the Board |
| **Name** | Fu Rong |
| **Correspondence address** | No.212 Qinjiang Road, Shanghai |
| **Telephone, fax and email** | +86(21)33261888<br>+86(21)34695780<br>ir@shanghai-electric.com |

## Summary of Basic Information

| | |
|---|---|
| **Registered address** | 30/F, Maxdo Center, No.8 Xingyi Road,<br>Shanghai (zip code 200336) |
| **Business address** | No. 212 Qinjiang Road, Shanghai (zip code 200233) |
| **Company website** | http://www.shanghai-electric.com |
| **Company email** | service@shanghai-electric.com |

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

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

## Summary of Listing of the Company's Shares

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

## Registrar and Transfer Office

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

H Shares: Computershare Hong Kong Investor Services Limited

## Other Relevant Information

| | |
|---|---|
| **Date of Incorporation of the Company** | 1 March 2004 |
| **Place of Incorporation of the Company** | Shanghai, PRC |
| **Name of domestic auditors appointed by the Company** | PricewaterhouseCoopers Zhong Tian LLP |
| **Business address of auditors appointed by the Company** | 11/F PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC |
| **Name of international auditors appointed by the Company:** | PricewaterhouseCoopers |
| **Business address of international auditors appointed by the Company:** | 20/F, Prince Building, Central, Hongkong |
| **Legal advisers appointed by the Company as to PRC Law:** | Grandall Law Firm (Shanghai) |
| **Legal advisers appointed by the Company as to Hong Kong Law and U.S. Law:** | Clifford Chance |
| **Legal advisers appointed by the Company as to Japanese Law:** | Anderson Mori & Tomotsune |

# *FIVE-YEAR FINANCIAL SUMMARY*

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

| RMB(million) | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Revenue and Profit** | | | | | |
| Revenue | 71,461 | 76,591 | 78,795 | 76,785 | 78,009 |
| Profit before tax | 4,917 | 5,726 | 5,283 | 5,439 | 5,944 |
| Tax | (772) | (1,344) | (1,073) | (895) | (1,288) |
| Profit for the year | 4,145 | 4,382 | 4,210 | 4,543 | 4,656 |
| **Attributable to:** | | | | | |
| Owners of the Company | 3,183 | 2,715 | 2,393 | 2,511 | 2,083 |
| Non-controlling interests | 962 | 1,667 | 1,817 | 2,033 | 2,573 |
| Dividend | 980 | 817 | 957 | 753 | 0 |
| **Earnings per share attributable to ordinary equity holders of the Company** | | | | | |
| Basic | | | | | |
| Profit for the year (cents) | 24.82 | 21.17 | 18.66 | 19.58 | 16.24 |
| **Assets and Liabilities** | | | | | |
| Non-current assets | 23,387 | 26,883 | 27,822 | 32,318 | 33,477 |
| Current assets | 87,413 | 91,816 | 101,471 | 111,232 | 128,647 |
| Current liabilities | (69,355) | (73,786) | (82,237) | (93,298) | (99,599) |
| Net current assets | 18,058 | 18,030 | 19,234 | 17,934 | 29,048 |
| Total assets less current liabilities | 41,445 | 44,913 | 47,056 | 50,252 | 62,525 |
| Non-current liabilities | (3,825) | (4,231) | (4,347) | (4,827) | (12,895) |
| **Net assets** | 37,620 | 40,682 | 42,709 | 45,425 | 49,630 |
| **Equity attributable to owners of the Company** | 29,529 | 30,506 | 32,206 | 34,236 | 37,251 |
| **Non-controlling interests** | 8,091 | 10,176 | 10,503 | 11,189 | 12,379 |

# KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

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

(in accordance with the PRC GAAP)

Unit:'000 Currency: RMB

| Key accounting data | 2015 | 2014 | Change for the period over the corresponding period of the last year (%) |
|---|---|---|---|
| Operating revenue | 78,009,448 | 76,784,516 | 1.60 |
| Total profit | 6,131,106 | 5,621,021 | 9.07 |
| Net profit attributable to shareholders of the listed company | 2,128,574 | 2,554,487 | -16.67 |
| Net cash flows generated from operating activities | 7,662,080 | 4,410,915 | 73.71 |
| | At the end of 2015 | At the end of 2014 | Change as at the end of the period over the end of the period of the last year (%) |
| Total assets | 162,123,657 | 143,550,564 | 12.94 |
| Equity attributable to shareholders of the listed company | 37,251,086 | 34,236,392 | 8.81 |
| **Key financial indicators** | **2015** | **2014** | **Change for the period over the corresponding period of the last year (%)** |
| Basic earnings per share (RMB/share) | 0.17 | 0.20 | -15.00 |
| Diluted earnings per share (RMB/share) | 0.17 | 0.20 | -15.00 |
| Weighted average net assets return rate (%) | 5.87 | 7.65 | Decreased by 1.78 percentage points |
| Net cash flows per share generated from operating activities (RMB/share) | 0.60 | 0.34 | 76.47% |
| | At the end of 2015 | At the end of 2014 | Change as at the end of the period over the end of the period of the last year (%) |
| Net assets per share attributable to shareholders of the listed company (RMB/ share) | 2.90 | 2.67 | 8.61% |

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

## Differences between the PRC GAAP and HKFRSs

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

Unit:'000 Currency: RMB

| | Net profit | | Net assets | |
|---|---|---|---|---|
| | Current period | Previous period | At the end of the period | At the beginning of the period |
| In accordance with the PRC GAAP | 2,128,574 | 2,554,487 | 37,251,086 | 34,236,392 |
| Items and amounts adjusted in accordance with HKFRSs: | | | | |
| Staff bonus and welfare funds | -69,540 | -61,255 | 0 | 0 |
| Safe production expenditures | 23,875 | 17,332 | 0 | 0 |
| In accordance with HKFRSs | 2,082,909 | 2,510,564 | 37,251,086 | 34,236,392 |

# SHARE CAPITAL STRUCTURE

## Share Capital Structure

| As at 31 December 2015 | Number of shares | Approximate percentage of issued share capital |
|---|---|---|
| A shares | 9,851,393,186 | 76.82% |
| H shares | 2,972,912,000 | 23.18% |
| Total | 12,824,305,186 | 100.00% |

# DISCLOSURE OF INTERESTS

## Disclosure of Interests

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

The followings are interests and short positions of substantial shareholders as at 31 December 2015 as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, Hong Kong ("SFO") and as to the knowledge of the Company:

| Name of Substantial Shareholder | Class of shares | Capacity | Note | Number of shares | Nature of Interest | Percentage of the relevant shares in issue (%) | Percentage of all the issued shares (%) |
|---|---|---|---|---|---|---|---|
| State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government | A | Interest of controlled corporation | 1 | 7,421,350,905 | Long position | 75.33 | 57.87 |
| | H | Interest of controlled corporation | 1 | 29,334,000 | Long position | 0.99 | 0.23 |
| Shanghai Electric (Group) Corporation | A | Beneficial owner | 1 | 7,030,458,711* | Long position | 71.37 | 54.82 |
| | H | Beneficial owner | 1 | 29,334,000 | Long position | 0.99 | 0.23 |
| Shenergy Group Company Limited | A | Beneficial owner | 1 | 390,892,194 | Long position | 3.97 | 3.05 |
| Sarasin & Partners LLP | H | Investment manager | | 189,238,000 | Long position | 6.37 | 1.48 |
| BlackRock, Inc. | H | Interest of controlled corporation | 2 | 175,028,217 | Long position | 5.89 | 1.36 |
| | H | Interest of controlled corporation | 2 | 72,000 | Short position | 0.00 | 0.00 |

* As disclosed under the announcement dated 24 December 2015 in relation to the gratuitous transfer of part of the Company's shares by controlling shareholder and the said gratuitous transfer is subject to the approval from State-owned Assets Supervision and Administration Commission of the State Council and Stale-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

## Notes

(1) Shanghai Electric (Group) Corporation (上海電氣(集團)總公司) and Shenergy Group Company Limited (申能(集團)有限公司) were wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government (上海市國有資產監督管理委員會) and accordingly, their interests in the A shares and H shares of the Company were deemed to be the interests of State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(2) BlackRock, Inc. had a long position in 175,028,217 H shares (in which 16,000 H shares were held through cash settled derivatives (off exchange)) and a short position in 72,000 H shares of the Company by virtue of its control over the following indirect wholly-owned subsidiaries:-

(2.1) BlackRock Investment Management, LLC, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,050,000 H shares of the Company.

(2.2) BlackRock Financial Management, Inc., an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 412,343 H shares of the Company.

(2.3) BlackRock Institutional Trust Company, National Association, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 32,174,114 H shares and a short position in 72,000 H shares of the Company.

(2.4) BlackRock Fund Advisors, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 69,310,000 H shares of the Company.

(2.5) BlackRock Advisors, LLC, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 10,000 H shares of the Company.

(2.6) BlackRock Japan Co., Ltd., an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 3,014,000 H shares of the Company.

(2.7) BlackRock Asset Management Canada Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 372,000 H shares of the Company.

(2.8) BlackRock Investment Management (Australia) Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 334,000 H shares of the Company.

(2.9) BlackRock Asset Management North Asia Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,376,207 H shares of the Company.

(2.10) BlackRock (Netherlands) B.V., an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 604,000 H shares of the Company.

(2.11) BlackRock Advisors (UK) Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 39,255,581 H shares of the Company.

(2.12) BlackRock International Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,014,000 H shares of the Company.

(2.13) BlackRock Asset Management Ireland Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 16,246,000 H shares of the Company.

(2.14) BLACKROCK (Luxembourg) S.A., an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 360,000 H shares of the Company.

(2.15) BlackRock Investment Management (UK) Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 8,131,972 H shares of the Company.

(2.16) BlackRock Fund Managers Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,350,000 H shares of the Company.

(2.17) BlackRock Asset Management (Schweiz) AG, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 14,000 H shares of the Company.

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2015 required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

*Directors', supervisors' and chief executives' interests and short positions in shares, underlying shares and debentures*

As at 31 December 2015, none of the directors, supervisors or chief executives (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules")) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified by the directors, supervisors or chief executives to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules. Also, no right to acquire the aforementioned interests had been granted to the directors, supervisors or chief executives of the Company.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## Interests in shares and remuneration of the Directors, Supervisors and Senior Management and the resigned Directors, Supervisors and Senior Management during the reporting period

Unit: Share

| Name | Position | Gender | Age | Term of office commencing on | Term of office ending on | Number of shares held at the beginning of the year | Number of shares held at the end of the year | Movement in the number of shares for the year | Reason for the movement | Total payable remuneration received from the Company during the reporting period (RMB in ten thousand) (before tax) | Salary received in their shareholder entities during the reporting period |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Huang Dinan | Executive Director, Chairman of the Board and Chief Executive Officer | Male | 49 | 26 February 2014 | 25 February 2017 | | | | | 77.1 | |
| Wang Qiang | Non-executive Director and Vice Chairman of the Board | Male | 57 | 27 June 2014 | 25 February 2017 | | | | | | |
| Zhu Kelin | Non-executive Director and Vice Chairman of the Board | Male | 53 | 26 February 2014 | 25 February 2017 | | | | | | |
| Zheng Jianhua | Executive Director and President | Male | 55 | 26 February 2014 | 25 February 2017 | | | | | 77.1 | |
| Huang Ou | Executive Director, Vise President and Chief Technology Officer | Male | 44 | 26 February 2014 | 25 February 2017 | | | | | 69.1 | |
| Yao Minfang | Non-executive Director | Female | 48 | 26 February 2014 | 25 February 2017 | | | | | | |
| Lui Sun Wing | Independent Non-executive Director | Male | 65 | 26 February 2014 | 25 February 2017 | | | | | 25 | |
| Kan Shun Ming | Independent Non-executive Director | Male | 58 | 26 February 2014 | 25 February 2017 | | | | | 25 | |
| Chu Junhao | Independent Non-executive Director | Male | 70 | 4 August 2014 | 25 February 2017 | | | | | 25 | |
| Dong Jianhua | Chairman of the Supervisory Committee | Male | 50 | 26 February 2014 | 25 February 2017 | | | | | | |
| Xie Tonglun | Supervisor | Male | 59 | 26 February 2014 | 25 February 2017 | | | | | 34.08 | |
| Li Bin | Supervisor | Male | 55 | 26 February 2014 | 25 February 2017 | | | | | | |
| Zhou Changsheng | Supervisor | Male | 50 | 26 February 2014 | 25 February 2017 | | | | | | |
| Zheng Weijian | Supervisor | Male | 54 | 26 February 2014 | 25 February 2017 | | | | | | |
| Zhu Genfu | Vice President | Male | 50 | 15 August 2014 | 25 February 2017 | | | | | 65.5 | |
| Hu Kang | Chief Financial Officer | Male | 52 | 26 February 2014 | 25 February 2017 | | | | | 55.6 | |
| Chen Hong | Chief Investment Officer | Male | 61 | 26 February 2014 | 25 February 2017 | | | | | | |
| Li Jing | Chief Information Officer | Female | 48 | 26 February 2014 | 25 February 2017 | 2,996 | 2,996 | | | 75.6 | |
| Tong Liping | Chief Legal Officer | Female | 44 | 26 February 2014 | 25 February 2017 | | | | | 65.6 | |
| Fu Rong | Secretary to the Board | Female | 45 | 26 February 2014 | 25 February 2017 | | | | | 60.6 | |
| Li Chung Kwong Andrew | Company Secretary | Male | 56 | 26 February 2014 | 25 February 2017 | | | | | 110 | |
| Total | / | / | / | / | / | 2,996 | 2,996 | | / | 765.58 | / |

# DIRECTORS

Major work experience

## Huang Dinan

Joined the Company in March 2004 and is currently an executive Director, the chairman of the Board and the chief executive officer of the Company. He is also the chairman of Shanghai Electric (Group) Corporation. Mr. Huang has extensive experience in the power generation equipment industry. Since joining the parent group in 1989, Mr. Huang held the positions of vice president of Shanghai Turbine Co., Ltd. from 1997 to 1999, president of Shanghai Turbine Co., Ltd. from 1999 to 2002, vice president of Shanghai Electric (Group) Corporation from 2002 to 2004, president of Shanghai Electric (Group) Corporation from 2004 to 2014, and president of the Company from 2004 to 2013. Mr. Huang graduated from Tsinghua University with a master's degree in engineering. He is a senior engineer of professorial level.

## Wang Qiang

Joined the Company in March 2004 and is currently a non-executive Director and the vice chairman of the Board and the chairman of Shanghai East Best & Lansheng International (Group) Co., Ltd. Since joining Shanghai Electric in 2001, Mr. Wang held various positions, namely, the head of the Human Resources Department, the head of Cadres Bureau and the head of Cadres Bureau and Human Resources Department, the secretary of the discipline committee, the executive vice president and the president of Shanghai Electric (Group) Corporation, the chairman of Shanghai Prime Machinery Company Limited, and also an executive Director and the head of the Human Resources Department of the Company. Mr. Wang Qiang obtained a postgraduate qualification from the Central Party School of the Communist Party of China majoring in politics and he is also a senior economist.

## Zhu Kelin

Joined the Company in March 2004 and is currently a non-executive Director and the vice chairman of the Board. Mr. Zhu has extensive experience in business administration. Mr. Zhu was the chairman of Fengchi Investment Co., Ltd. from May 2007 to July 2012, the general manager of Fengchi Investment Co., Ltd. from July 2012 to May 2015, the vice chairman of Guangdong Zhujiang Investment Holding Group Co., Ltd. from February 2008 to July 2011, and the chairman of Guangdong Zhujiang Investment Co,. Ltd. from December 2007 to May 2015. Mr. Zhu graduated from the University of Western Sydney with a master's degree in business administration.

## Zheng Jianhua

Joined the Company in March 2004 and is currently an executive Director and the president of the Company. He is also the vice chairman of Shanghai Electric (Group) Corporation. Mr. Zheng Jianhua has over 30 years of experience in equipment manufacturing business. Mr. Zheng was previously the president of Shanghai Turbine Co., Ltd., the factory director of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd., the president of Shanghai Electric Power Generation Group, the chairman of Shanghai Electric Power Generation Equipment Co., Ltd. and the vice president of Shanghai Electric (Group) Corporation. Mr. Zheng Jianhua has obtained a master's degree in business administration from China Europe International Business School. He is a senior economist.

### Huang Ou

Joined the Company in March 2004 and is currently an executive Director, the vice president and the chief technology officer of the Company, and vice chairman of Shanghai Electric Transmission and Distribution Group Co., Ltd. Mr. Huang has extensive experience in the power generation equipment manufacturing industry. He previously served as the president of Shanghai Turbine Co., Ltd., executive vice president of Shanghai Electric Power Generation Group, vice chairman and vice president of Shanghai Electric Power Generation Equipment Co., Ltd., the head of the Central Research Institute and the head of the technology management department of the Company, vice chairman of Shanghai Rail Traffic Equipment Development Co., Ltd., chairman of Shanghai Thales Saic Transport Co., Ltd., chairman of SEC - IHI Power Generation Environment Protection Engineering Co., Ltd., and chairman of Shanghai Electric Building Energy Efficiency Co., Ltd. Mr. Huang graduated from Shanghai Jiao Tong University with a master's degree in engineering and is a senior engineer of professorial level.

### Yao Minfang

Joined the Company in November 2007 and is currently a non-executive Director of the Company. Ms. Yao was the head and deputy manager of the investment department of Shenergy Company Limited from 2000 to 2006. Ms. Yao has been the deputy manager and then the manager of the investment management department of Shenergy Group Company Limited since September 2006. Ms. Yao graduated from the dynamics department of the University of Shanghai for Science and Technology with a master's degree and is a senior engineer of professorial level.

### Lui Sun Wing

Joined the Company in December 2010 and is currently an independent non-executive Director of the Company. Dr. Lui joined the Hong Kong Productivity Council in October 1981, and served in various positions. In December 1992, he was promoted to the vice-president, primarily providing the R&D, consultancy and training services for industrial and commercial sector as well as enhancing corporate management and productivity. He then joined Hong Kong Polytechnic University as the vice president from July 2000 to June 2010 till retirement, being responsible for industry-university collaboration, applied R&D and transformation of research results. Dr. Lui was an independent non-executive director of Leo Paper Group (Hong Kong) Limited (unlisted) from April 2010 to March 2015. Dr. Lui is also an international director of SAE International, the founding director of the Society of Automotive Engineers-HK, former president to the Hong Kong Association for the Advancement of Science and Technology as well as Honorary President and Honorary Advisors of various commercial, industrial and professional associations. Dr. Lui is currently an independent non-executive director of Shenzhen GTA Information Technology Co., Ltd. (unlisted) and a non-executive director of Eco-Tek Holdings Limited. Dr. Lui obtained his PhD degree in mechanical engineering from the University of Birmingham in UK.

### Kan Shun Ming

Joined the Company in February 2014 and is currently an independent non-executive Director of the Company and serves as a partner of Wong Brothers & Co Certified Public Accountants and also a director of Authosis Ventures (翺科創業投資有限公司), the honorary auditor of Hong Kong Public Doctors' Association, the honorary auditor of German Chamber of Commerce Hong Kong, the member of the Hospital Governing Committee of Hong Kong HA Tseung Kwan O Hospital. Mr. Kan previously served as an independent non-executive director of Lenovo Group and the chairman of Taiwan Fuxun Technology Company Limited. Mr. Kan graduated from the University of Manchester in UK and obtained honorary bachelor's degree in computer science and accounting. He is a fellow member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

### Chu Junhao

Joined the Company in August 2014 and is an Academician of Chinese Academy of Sciences. He currently serves as an independent non-executive Director of the Company, the researcher of Shanghai Institute of Technical Physics, the dean of the School of Information Science Technology of East China Normal University, and a Director of Shanghai Solar Cells Research and Development Center. Mr. Chu is mainly engaged in scientific and technological research of infrared optoelectronic physics and semiconductor, and has won the National Natural Science Award (國家自然科學獎) three times, Provincial Technological Progress Awards and Natural Science Awards (省部級科技進步獎和自然科學獎) 12 times, the Outstanding Individual Award on the State Key Laboratory Scheme (國家重點實驗室計劃先進個人獎) and the Outstanding Individual Award on the State 973 Program (國家973計劃先進個人獎). In recent years, Mr. Chu has chaired the "Modern Infrared Optoelectronic Physics and Focal Plane Device Physics"(現代紅外光電子物理和焦平面器件物理) (2003-2011) of National Natural Science Foundation's Innovative Research Group Project and presided over "Spin Quantum Control in Semiconductor Quantum Structures" (半導體量子結構中的自旋量子調控) (2007-2011) and "Solid-state Quantum Devices and Circuits"(固態量子器件和電路) (2013-2017) of the Quantum Control Projects in the Major National Scientific Research Program (known as 973 Program). Mr. Chu and his colleagues established the Key Laboratory of Polar Materials and Devices, Ministry of Education (極化材料和器件教育部重點實驗室), and Shanghai Solar Cells Research and Development Center (上海太陽能電池研發中心). Mr. Chu obtained a doctor's degree from Shanghai Institute of Technical Physics of the Chinese Academy of Sciences.

## SUPERVISORS

Major work experience

### Dong Jianhua

Joined the Company in December 2010 and is currently the chairman of the supervisory committee of the Company and the chairman of the supervisory committee of Shanghai Highly (Group) Co., Ltd. Dong Jianhua joined Shanghai Electric (Group) Corporation, the parent group of the Company, as the chief financial officer in April 2008. Mr. Dong has extensive experience in corporate internal audit and supervision. Prior to joining the parent group of the Company, Mr. Dong was the assistant to the head and the deputy head of Infrastructure Office of Shanghai Municipal Audit Bureau, the deputy head and the head of Fixed Assets Investment and Audit Office, as well as the head of Audit Office between 1987 and 2008. Mr. Dong has been involved in professional auditing for more than 25 years. Mr. Dong graduated from Shanghai Tongji University with a bachelor's degree in engineering. He also obtained a master's degree in business administration from Shanghai Jiao Tong University. Mr. Dong is a senior economist.

### Xie Tonglun

Joined the Company in March 2004 and is currently an employee representative of the supervisory committee of the Company and the vice chairman of Shanghai Mechanical and Electrical Union (上海市機電工會). Mr. Xie was the deputy manager of the administration office of Shanghai Electric (Group) Corporation from 1996 to 2001, the deputy secretary of the Commission for Discipline Inspection of Shanghai Electric (Group) Corporation from 2001 to 2004, and the director of the office of the communist party office of the Company. Mr. Xie graduated from the administrative management department of Shanghai Administration Institute with a bachelor's degree in management. Mr. Xie is a senior policy advisor.

## Li Bin

Joined the Company in November 2007 and is currently an employee representative of the supervisory committee of the Company, the vice chairman of Shanghai General Labour Union, the vice chairman of Shanghai Mechanical and Electrical Union, the chief technologist of Shanghai Electric Hydraulic & Pneumatics Co., Ltd. and the head of the production line of the computer numerically controlled plant of Shanghai Hydraulic Pump Factory. Since 1980, Mr. Li has been a worker of plant 2, product test engineer and head of the product test team of computer numerically controlled plant of Shanghai Hydraulic Pump Factory. Mr. Li is also a member of the experts committee of China Hydraulics Pneumatic & Seals Association, the chairman of Shanghai Technicians Association and the vice chairman of Research Institute of Optomechatronics Technology of Shanghai Second Polytechnic University. Mr. Li graduated from Shanghai Second Polytechnic University, majoring in electromechanical engineering. Mr. Li is an engineer and a senior technician.

## Zhou Changsheng

Joined the Company in November 2007 and is currently a Supervisor of the Company, the deputy head of the audit office of Shenergy Group Company Limited, the chief auditor of Anhui Wuhu Nuclear Power Co., Ltd., and an independent director of Shanghai CP Guojian Pharmaceutical Co., Ltd. Mr. Zhou has decades of work experience and extensive management experience in corporate financial management, internal audit as well as supervision and internal control. Mr. Zhou was the deputy head of the treasury division of the finance department of Meishan subsidiary of Baosteel Group, the manager of the accounting department of Shanghai Bailian Group Co., Ltd., the head of the finance department and the assistant director of the audit office of Shenergy Group Co. Ltd., a director of Shanghai Metro Construction Corporation Ltd. and an independent director of Shanghai Zhongxi Pharmaceutical Co., Ltd. Mr. Zhou holds a master's degree. He is also a Certified Public Accountant in the PRC and a senior accountant.

## Zheng Weijian

Is currently a Supervisor of the Company, the chairman of the supervisory committee of Guangdong Zhujiang Investment Co., Ltd. Since January 2008 until now, Mr. Zheng has been the chairman of the supervisory committee of Guangdong Zhujiang Investment Co., Ltd. Since January 2013 until now, Mr. Zheng has been the chairman of Guangdong Zhujiang Investment Management Group Co., Ltd. Since July 2012, Mr. Zheng has been the chairman of Fengchi Investment Co., Ltd. He was a Supervisor of the Company from 2004 to 2007. Mr. Zheng holds a master's degree in business administration from Macau University of Science and Technology. He is also a senior Certified International Accountant and senior International Finance Manager.

## SENIOR MANAGEMENT

Major work experience

### Zhu Genfu

Joined the Company in March 2004 and is currently a vice president of the Company and the president of Shanghai Electric Nuclear Power Group (上海電氣核電集團). Mr. Zhu was previously the general manager of Shanghai Boiler Works Ltd., the executive vice president of Shanghai Electric Power Generation Group, the vice president of Shanghai Electric Heavy Industry Group, an executive director of Shanghai Electric Nuclear Power Equipment Co., Ltd., the chairman of the board of Shanghai No.1 Machine Tool Works Co., Ltd., and the deputy general manager of State Nuclear Power Engineering Company. Mr. Zhu graduated from Huazhong University of Science and Technology with a bachelor's degree in engineering and from Shanghai Jiao Tong University with a master's degree in business administration. Mr. Zhu is a senior engineer of professorial level.

### Hu Kang

Joined the Company in April 2013 and is currently the chief financial officer, the head of the assets finance department of the Company, the chairman of the supervisory committee of Shanghai Mechanical and Electrical Industry Co., Ltd., and the chairman of Shanghai Electric Group Finance Co., Ltd. He previously served as the deputy general manager of Shanghai Bearing (Group) Co., Ltd., the factory director of Shanghai Zhenhua Bearing Factory Company Limited, the assistant to the chief financial officer of Shanghai Electric (Group) Corporation, a director and the general manager of Shanghai Shangling Electric Company Ltd., the general manager of the second management department of Shanghai Electric Assets Management Company Limited, a director and the general manager of Shanghai Prime Machinery Company Limited, and the assistant to the president and the head of the audit department of the Company. Mr. Hu obtained an EMBA degree from Shanghai Jiao Tong University and he is a senior accountant and senior economist.

### Chen Hong

Joined the Company in August 2005 and is currently the chief investment officer of the Company, and the chairman of Shanghai Mechanical and Electrical Industry Co., Ltd. He previously served as the general manager of Shanghai Mechanical and Electrical Industry Co., Ltd., the general manager of Shanghai Instrument and Electronics Import and Export Company, the vice general manager of SVA Technologies, Co., Ltd, the vice president of SVA (Group) Co., Ltd., a director and the general manager of Shanghai Electric International Economic & Trading Co., Ltd., and the chairman of Goss International Corporation. Mr. Chen holds a master's degree in business administration from China Europe International Business School. He is a senior economist.

## Li Jing

Joined the Company in March 2004 and is currently the chief information officer and the head of the information management department of the Company. Ms. Li has long been engaged in informatization work for the Group as well as entities under the Group and has decades of extensive experience in IT and information management. She has served as the chief information officer and the head of the IT Department of Shanghai Electric Power Generation Group since 2004. Ms. Li is an expert in the field of domestic manufacturing informatization. Ms. Li obtained a bachelor's degree in computer engineering and a master's degree in accounting and is a senior engineer of professorial level.

## Tong Liping

Joined the Company in March 2004 and currently serves as the chief legal officer, the head of the legal department and the solicitor of the Company. Ms. Tong has long been engaged in in-house legal works and is experienced in managing corporate legal affairs with rich knowledge in relevant laws. Ms. Tong served as the director of the legal and audit office and the head of the legal department of Shanghai Electric Power Generation Group from 2004 to 2010, the director of the legal affairs centre of the Company from 2006 to 2008, and has taken up the responsibility of the deputy director and the director of the legal department and then the chief legal counsel of the Company since 2008. Ms. Tong graduated from Shanghai Fudan University with a master's degree in law.

## Fu Rong

Joined the Company in June 2005 and is currently the Secretary to the Board, the director of the secretariat office of the Board and the head of the office of the Company. She has been the securities affairs representative of Shanghai Power Transmission and Distribution Co., Ltd., the head of the marketing department of the low voltage product division of ABB (China) Investment Ltd., the board secretary and the head of department of securities of Shanghai Electric Devices Company Limited, and the secretary of the board of directors and the head of department of securities of Shanghai Power Transmission and Distribution Co., Ltd., and the head of the Human Resources Department and Investor Relations Department of the Company. Ms. Fu Rong holds a master's degree in business administration and is a senior economist.

## Li Chung Kwong Andrew

Joined the Company in April 2005 and is currently the Company Secretary and the head of the Investor Relations Department of the Company. Mr. Li served as the Company Secretary and qualified accountant of the Company from 2005 to 2010. He was the financial senior vice president and treasurer of Goss International Corporation from 2011 to 2012, and in between served as a director of Goss International Corporation and Goss Graphic Systems Ltd well. Before joining the Company, he served as the chief financial officer of Oriental Juice Investment Company Limited from 2002 to 2004. During 1996 to 2002, he was a practicing accountant in Hong Kong and a partner of Chu and Chu Certified Public Accountants. Mr. Li graduated from the Hong Kong Polytechnic University and is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, as well as a member of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Internal Auditors.

## Employment status of the incumbent and resigned directors, supervisors and senior management during the reporting period

*Employment status with shareholder entities*

| Name | Name of shareholder entities | Position in shareholder entities | Term of office commencing on | Term of office ending on |
|---|---|---|---|---|
| Huang Dinan | Shanghai Electric (Group) Corporation | Chairman of the Board | May 2014 | to present |
| Zheng Jianhua | Shanghai Electric (Group) Corporation | Vice Chairman of the Board | May 2014 | to present |
| Zhu Kelin | Fengchi Investment Co., Ltd. | General Manager | July 2012 | May 2015 |
| Dong Jianhua | Shanghai Electric (Group) Corporation | Chief Financial Officer | April 2008 | to present |
| Yao Minfang | Shenergy Group Company Limited | Manager of the Investment Management Department | March 2009 | to present |
| Zhou Changsheng | Shenergy Group Company Limited | Deputy head of the audit office | February 2009 | to present |
| Zheng Weijian | Fengchi Investment Co., Ltd. | Chairman of the Board | July 2012 | to present |

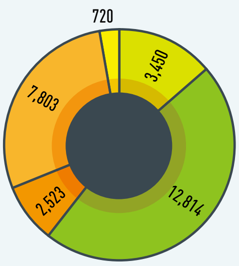
*Employment status with other entities*

| Name | Name of other entities | Position in other entities | Term of office commencing on | Term of office ending on |
|---|---|---|---|---|
| Wang Qiang | Shanghai East Best & Lansheng International (Group) Co., Ltd. | Chairman of the Board | October 2015 | to present |
| Zhu Kelin | Guangdong Zhujiang Investment Co., Ltd. | Chairman of the Board | December 2007 | May 2015 |
| Lui Sun Wing | Eco-Tek Holdings Limited | Non-executive director | January 2001 | to present |
| | Leo Paper Group (Hong Kong) Limited | Independent non-executive director | April 2010 | March 2015 |
| | Shenzhen GTA Information Technology Co., Ltd. | Independent non-executive director | November 2014 | to present |
| Kan Shun Ming | Wong Brothers & Co Certified Public Accountants | Partner | 1990 | to present |
| | Authosis Ventures (翱科創業投資有限公司) | Director | 2001 | to present |
| | Hong Kong Public Doctors' Association | Honorary auditor | 1991 | to present |
| | German Chamber of Commerce Hong Kong | Honorary auditor | 1990 | to present |
| | Tseung Kwan O Hospital of Hong Kong Hospital Authority | Member of the Governing Committee | April 2014 | to present |
| Chu Junhao | Shanghai Institute of Technical Physics | Researcher | December 1984 | to present |
| | School of Information Science Technology, East China Normal University | Dean | July 2006 | to present |
| | Shanghai Solar Cells Research and Development Center | Head | January 2008 | to present |
| Dong Jianhua | Shanghai Highly (Group) Co., Ltd. | Chairman of the Supervisory Committee | April 2013 | to present |
| Li Bin | Shanghai Electric Hydraulic & Pneumatics Co., Ltd. | Chief technician | October 2004 | to present |
| Zhou Changsheng | Anhui Wuhu Nuclear Power Co., Ltd | Chief auditor | March 2009 | to present |
| | Shanghai CP Guojian Pharmaceutical Co., Ltd. | Independent director | October 2010 | to present |
| Zheng Weijian | Guangdong Zhujiang Investment Co., Ltd. | Chairman of the Supervisory Committee | January 2008 | to present |
| | Guangdong Zhujiang Investment Management Group Co., Ltd. | Chairman of the Board | January 2013 | to present |
| Hu Kang | Shanghai Mechanical and Electrical Industry Co., Ltd. | Chairman of the Supervisory Committee | June 2015 | to present |

## Remunerations of Directors, Supervisors and Senior Management

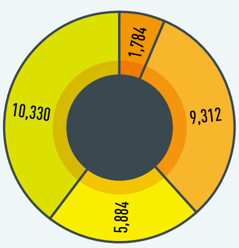
| | |
|---|---|
| Procedures to determine the remunerations of Directors, Supervisors and Senior Management | The remunerations of our Directors and Supervisors (non-employee representatives) are determined in the general meeting, while the remunerations of our Senior Management are determined by the board of directors of the Company. |
| Basis for determining the remunerations of Directors, Supervisors and Senior Management | The remunerations of our Directors and Supervisors (non-employee representatives) are determined based on a number of factors, such as the operating results of the Company, their responsibilities, performance and market conditions. The remunerations of our Supervisors (employee representatives) and Senior Management are determined based on their responsibilities and degree of completion of annual operation plan. |
| The remunerations payable to Directors, Supervisors and Senior Management | The Company has paid the remunerations to its Directors, Supervisors and Senior Management based on their respective entitlement. |
| Total actual remunerations received by all Directors, Supervisors and Senior Management at the end of Reporting Period | RMB7.6558 million |

## Statistical Chart of Personnel Classification




- Production personnel
- Sales personnel
- Technical personnel
- Financial personnel
- Administration personnel

## Statistical Chart of Education Level




- Postgraduatc and above
- Undcrgraduatc
- Tertiary education
- Secondary education and below

## Changes of Directors, Supervisors and Senior Management of the Company

| Name | Position | Change | Reason for the change |
|---|---|---|---|
| Yu Yingui | Executive Director | Resigned | Age |
| Huang Ou | Executive Director | Elected | Elected at the general meeting |
| Cao Jun | Chief Executive Officer | Resigned | Work requirements |
| Zhang Jianming | Chief Risk Management Officer | Resigned | Age |

## Core Technology Team and Key Technology Staff of the Company

There has been no significant change of core technology team and key technology staff of the Company during the Reporting Period.

## Particulars about Punishment Imposed by Securities Regulatory Authorities during Recent Three Years

None.

## Employees of the Company and Principal Subsidiaries

### Staff

| | |
|---|---|
| Number of current staff in the Company | 73 |
| Number of current staff in the principal subsidiaries | 27,237 |
| Total number of current staff | 27,310 |
| Number of retired staff for whom the Company and the principal subsidiaries are responsible for the retirement benefits | 289 |

**Personnel classification**

| Personnel categories | Number of persons |
|---|---|
| Production personnel | 12,814 |
| Sales personnel | 2,523 |
| Technical personnel | 7,803 |
| Financial personnel | 720 |
| Administration personnel | 3,450 |
| Total | 27,310 |

**Education Level**

| Categories by education level | Number of persons |
|---|---|
| Postgraduate and above | 1,784 |
| Undergraduate | 9,312 |
| Tertiary education | 5,884 |
| Secondary education and below | 10,330 |
| Total | 27,310 |

### Remuneration Policy

During the reporting period, the Company complied strictly with the relevant laws and regulations and paid the employees as well as various social insurance contributions regularly and fully. There was no wages or remuneration in arrears to employees or labour service workers. The Company set up a comprehensive system which synchronized the increase of employees' salary with the improvement in labour productivity; thus, the level of wage increase of the Company and the wages adjustment of employees of various work position can be determined reasonably. The Company insisted on the policy of "Dual Inclination, Dual Care" and implemented policies that tilted towards scientific technological staffs and the front line technical workers while paying special care towards temporarily unemployed staff and workers who are in economic difficulties.

### Training Program

During the reporting period, the company adhered to the idea of demand driven, enhanced the construction of training system and training base, and continued on training of core employees, especially of leading cadres and strategically short talents, making greater efforts on staff training and improving business development of the Group and human capital value by focusing on the Group's strategy and the requirement of "a year of transformation and breakthroughs".

### Contracted Labour

| | |
|---|---|
| Total remuneration paid to contracted labour | RMB174 million |

## Services Contracts of Directors and Supervisors

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

## Directors' and Supervisors' Interest in Transactions, Arrangements or Contracts of Significance

During the year, none of the Directors, Supervisors or an entity connected with Directors or Supervisors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party.

## Permitted Indemnity Provision

The Company has arranged appropriate insurance cover in respect of potential legal actions and liabilities that may result from business activities of the Company against the Directors, the Supervisors and the senior management.

## Incentive Share Option Scheme

Currently, the Company does not have any incentive share option scheme.

# CORPORATE GOVERNANCE REPORT

***The Board firmly believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure a high level of transparency in corporate governance and an excellent performance in operation.***

***The Company will periodically review and update the existing practices, in order to follow the latest developments in corporate governance.***

## Model Code for Securities Transactions by Directors

The Company has adopted the code provisions regarding the purchase and sale of the Company's shares by the directors of the Company on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"). All directors and supervisors of the Company confirmed that they had complied with the requirements contained in the Model Code throughout the year 2015. The Company was not aware of any non-compliance of the Model Code by any staff.

## Board of Directors

During the reporting period, the Board of Directors comprises nine Directors, including three executive Directors, namely Huang Dinan, Zheng Jianhua, Huang Ou (appointed on 5 May 2015) and Yu Yinggui(resigned on 17 March 2015), three non-executive Directors, namely Wang Qiang, Zhu Kelin and Yao Minfang, and three independent non-executive Directors, namely Lui Sun Wing, Kan Shun Ming and Chu Junhao. The number of independent non-executive Directors represents one-third of the total number of directors.

The Board members have different professional backgrounds with expertise in various aspects such as corporate management, technology development, financial management, strategic investment and human resources management. Their biographical particulars are set out in the "Directors, Supervisors, Senior Management and Staff" section of this annual report.

All independent non-executive Directors of the Company are aware of the rights and obligations of directors and independent non-executive directors of listed companies. During the reporting period, independent non-executive Directors attended Board meetings in prudent, responsible, proactive and earnest manner. Applying their experiences and specialization, they contributed tremendous efforts in improving corporate management and making major decisions and producing relevant and objective opinions on major events and connected transactions of the Company, enhancing the scientific development and standardization of the Board's decision making process and safeguarding interests of the Company and shareholders as a whole effectively.

All independent non-executive directors have confirmed their independence with the Company as required under Rule 3.13 of the Hong Kong Listing Rules annually. The Company has received the annual confirmations from such Directors and considered them to be independent in 2015.

Powers and duties of the Board and the management have been specified in the Articles of Association to ensure adequate check and balance for sound corporate governance and internal controls. The Board formulates overall development strategies of the Group, monitors its financial performance and maintains effective supervision over the management. Members of the Board act in an effort to maximize the long-term interests of shareholders and match the business goals and development direction of the Group to the current economic and market conditions. The management team of the Company is responsible for daily operation and management of the Company. The management of the Company, under the leadership of the President (also an executive Director), is responsible for implementing various resolutions made by the Board and organizing daily operation and management of the Company.

Every Board member has the right to inspect various documents and relevant materials of the Board of Directors, to consult the Company Secretary and the Secretary to the Board of Directors on regulatory and compliance matters and to seek external professional advice when necessary. The Company Secretary and the Secretary to the Board of Directors continuously advise all Directors on continuing obligations under the Hong Kong Listing Rules and other applicable laws and regulations to ensure the Company's compliance with such requirements and to ensure an excellent corporate governance of the Company.

Apart from the working relationship in the Company, there were no financial, operational, familial or other material relationships among the Directors, Supervisors and senior management.

The Company attaches great importance to the continuous training on various areas of the Directors. During the reporting period, the Company arranged certain courses and provided the newest regulation on areas including business, law and finance, for the Directors to advance their professional knowledge on a continuous basis.


## The attendance of Directors of the Board meetings and the general meetings

| Name of Directors | Independent Non-executive Director | Attendance at the Board meetings | | | | | | Attendance at the general meetings |
|---|---|---|---|---|---|---|---|---|
| | | Required attendance in Board meetings during the year | Attendance in person | Attendance via other communication means | Attendance by proxy | Absence | Personal absence for two or more consecutive meetings | Attendance of general meetings |
| Huang Dinan | No | 11 | 11 | 7 | 0 | 0 | No | 0 |
| Wang Qiang | No | 11 | 9 | 7 | 2 | 0 | No | 0 |
| Zhu Kelin | No | 11 | 10 | 7 | 1 | 0 | No | 0 |
| Zheng Jianhua | No | 11 | 10 | 7 | 1 | 0 | No | 2 |
| Huang Ou | No | 8 | 7 | 6 | 1 | 0 | No | 0 |
| Yao Minfang | No | 11 | 11 | 7 | 0 | 0 | No | 1 |
| Lui Sun Wing | Yes | 11 | 11 | 7 | 0 | 0 | No | 1 |
| Kan Shun Ming | Yes | 11 | 11 | 7 | 0 | 0 | No | 2 |
| Chu Junhao | Yes | 11 | 11 | 7 | 0 | 0 | No | 1 |

| | |
|---|---|
| Number of Board meetings held during the year | 11 |
| Of which: Number of meetings by physical attendance | 4 |
| Number of meetings held via other communication means | 7 |
| Number of meetings by physical attendance as well as via other communication means | 0 |

## Corporate Governance Functions

During the reporting period, the Board of the Company performed the following functions: to develop and review the Company's policies and practices on corporate governance and make recommendations; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's compliance with the code provisions and disclosure in the Corporate Governance Report.

During the reporting period, the Board of Directors is of the view that the Company has complied with the code provisions of the Code contained in Appendix 14 of the Hong Kong Listing Rules (the"Code"), except for code provision A.2.1 concerning the requirements to separate the roles of the chairman and chief executive officer. Pursuant to code provision A.2.1 of the Code, roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. During the reporting period, Mr. Huang Dinan is the Chairman of the Board and the Chief Executive Officer of the Company. However, the executive Director and the President of the Company, Mr Zheng Jianhua, has been fully responsible for the daily operations of the Company and execution of instructions from the Board. The Company is of the opinion that segregation of duties and responsibilities between the Board and the management has been well maintained and there exists no problem of over-centralization of management power on one particular individual.

## Audit Committee

The audit committee of the Company (the "Audit Committee") is mainly responsible for reviewing and overseeing the financial reporting procedures and internal control system of the Group, reporting the results of such review and making recommendations for improvement to the Board. The Audit Committee is also responsible for reviewing the quarterly, interim and annual financial statements, connected transactions, the appointment of and remuneration for auditors.

The Audit Committee, currently comprising independent non-executive directors Mr. Kan Shun Ming, Dr. Lui Sun Wing, Mr. Chu Junhao and Ms. Yao Minfang, is chaired by Mr. Kan Shun Ming, an independent non-executive director. The Board approved the amendments in respect of the "Terms of Reference for the Audit Committee of the Board of Shanghai Electric Group Company Limited" on 26 February 2016, which has been published on the websites of the stock exchanges where the Company is listed as well as the website of the Company. The Audit Committee will carry out its duties and responsibilities in accordance with the amended terms of reference with effect from 26 February 2016.

Ten meetings of the Audit Committee were held during the reporting period. During the meetings, the Audit Committee has reviewed and overseen the financial reporting procedures and internal control system of the Group, reported the results of such review and made recommendations for improvement to the Board. Our Audit Committee has also reviewed the quarterly and annual financial reports, profit distribution plan of the Company, and the appointment of and remuneration for auditors.

**During the reporting period, the attendance at the meetings of the Audit Committee was as follows (Actual attendance/attendance required):**

| Name of Audit Committee Member | Actual attendance/ attendance required |
|---|---|
| Kan Shun Ming (Chairman of the Committee) | 10/10 |
| Lui Sun Wing | 10/10 |
| Chu Junhao | 10/10 |
| Yao Minfang | 10/10 |

## Remuneration Committee

The Remuneration Committee of the Company (the "Remuneration Committee") is mainly responsible for making recommendations to the Board of Directors regarding the formulation of a proper and transparent compensation policy and structure for directors and senior management of the Company.

The Remuneration Committee of the Company currently comprises Dr. Lui Sun Wing, Mr. Wang Qiang, and Mr. Chu Junhao. Dr. Lui Sun Wing is the chairman of the Remuneration Committee.

One meeting of the Remuneration Committee was held during the reporting period, at which the Remuneration Committee considered the remunerations for the directors, supervisors and the senior management of the Company, and formulated the remuneration procedures. According to clause 11(b) of the Terms of Reference for the Remuneration Committee of the Company, the Remuneration Committee has been delegated to determine the specific remuneration packages of all executive Directors and senior management of the Company.

**During the reporting period, the attendance at the meetings of the Remuneration Committee was as follows (Actual attendance/attendance required):**

| Name of Remuneration Committee Member | Actual attendance/ attendance required |
|---|---|
| Lui Sun Wing (Chairman of the Committee) | 1/1 |
| Wang Qiang | 1/1 |
| Chu Junhao | 1/1 |

## Strategic Committee

The Strategic Committee under the Board of the Company (the "Strategic Committee") is currently composed of Mr. Huang Dinan, Mr. Wang Qiang, Mr. Zheng Jianhua, Dr. Lui Sun Wing and Mr. Chu Junhao, and chaired by Mr. Huang Dinan.

One meeting of the Strategic Committee was held during the reporting period,at which,the new round of development strategies of the Company were considered.

## Nomination Committee

The Nomination Committee under the Board of the Company (the "Nomination Committee") currently comprises Mr. Chu Junhao, Mr. Wang Qiang and Mr. Kan Shun Ming, Mr. Chu Junhao being the Chairman.

The primary functions of our Nomination Committee include reviewing and making recommendations to the Board and the general meeting of the Company on the selection of candidates of the Directors, the selection criteria and the procedures of selection.

The Company has formulated the Policy on Board Member Diversification of Shanghai Electric Group Company Limited, which includes the requirements of compliance with relevant laws, regulations and Articles of Association by candidates for directors of the Company, to ensure the effective discussions at the Board and enable the Board to make scientific, prompt and careful decisions. The Nomination Committee would select the best candidates for directors based on objective criteria, which contain certain diversified factors, including but not limited to, factors such as the gender, age, cultural and education background, locality, professional experience, skills, knowledge and terms of office of the candidates for directors, and other regulatory requirements; the degree of suitability of the professional background and skills of the candidates for directors with the business features and future development requirements of the Company. During the reporting period, the Nomination Committee of the Company convened one meeting, and reviewed issues regarding the newly-appointed candidates for directors of the Company in accordance with the above policies.

**During the reporting period, the attendance at the meetings of the Nomination Committee was as follows (Attendance in person /attendance required):**

| Name of Nomination Committee Member | Actual attendance/ attendance required |
|---|---|
| Chu Junhao (Chairman of the Committee) | 1/1 |
| Wang Qiang | 1/1 |
| Kan Shun Ming | 1/1 |

## Directors' and Auditors' Responsibilities for Accounts

The directors of the Company acknowledge their responsibilities for the preparation of financial reports for each financial year which give a true and fair view of the financial position, the results and cash flows of the Group for that financial year. In preparing the financial report for the year ended 31 December 2015, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable and have prepared the financial reports on the going concern basis. The directors are ultimately responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

## Supervisory Committee

The Supervisory Committee is a standing monitoring agency of the Company responsible for monitoring the Board of Directors and its members and senior management to avoid abuse of power that may harm the legitimate interests of shareholders, the Company and staff of the Company. The number of members and formation of the Supervisory Committee of the Company comply with the requirements of the relevant laws and regulations in the PRC.

### During the reporting period, the attendance at the meetings of the Supervisory Committee was as follows (Attendance in person/attendance required):

| Name of Supervisors | Actual attendance/ attendance required |
|---|---|
| Dong Jianhua | 10/10 |
| Xie Tonglun | 9/10 |
| Li Bin | 10/10 |
| Zhou Changsheng | 10/10 |
| Zheng Weijian | 9/10 |

## Senior Management

As at the date of this report, the Company has nine members of senior management in total, namely Zheng Jianhua, Huang Ou, Zhu Genfu, Hu Kang, Chen Hong, Li Jing, Tong Liping, Fu Rong and Li Chung Kwong Andrew. The details of their duties, particulars and compensation are set out in the section headed " Directors, Supervisors, Senior Management and Staff".

## Internal Controls

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

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

The Company has developed "Assessment and Management Methods of Internal Controls". The Company's Audit and Review Office is responsible for the daily inspection and monitoring work of the Company's internal controls and draws up working plans for internal control reviews annually and set up an assessment team consisting of competent members transferred from various segments of businesses. The team conducts internal control assessment on units and businesses in a specified scope, identifies any defects of internal controls, makes proposals on rectification and ensuring corrective measures proposed from previous audit having been adopted and implemented. Reports on the assessment of internal controls are compiled and presented to the audit committee, supervisory committee and the Board, so as to persistently enhance the level of the Company's internal controls. In 2015, the Company has complied with the requirements of C.2.1 of Appendix 14 of the Hong Kong Listing Rules.

According to the requirements, the Company engaged PricewaterhouseCoopers Zhongtian, LLP in 2015 to carry out an audit on the effectiveness of the internal controls related to the financial reporting of the Company. PricewaterhouseCoopers Zhongtian, LLP, has issued an audit report with standard views with respect to the internal controls.

## General Meetings

The General Meeting is the highest authority of the Company which performs its duties according to laws and makes decisions on major issues of the Company. Annual general meetings or extraordinary general meetings of the Company are direct communication channels between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to general meetings and encourages all shareholders to attend and express their opinions at the meetings.

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

## Communications with Shareholders

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

## Company Secretary

As at the date of this report, Mr. Li Chung Kwong Andrew is the Company Secretary of the Company. According to the relevant requirements of the Hong Kong Listing Rules, Mr. Li Chung Kwong Andrew participated in the relevant training during the reporting period and the time for training was no less than 15 hours in total.

## Disclosure of Information and Investor Relations

The Company persistently discloses its significant corporate information to public in a timely, accurate and complete manner since our public listing. The Company recognizes the importance of good communications with its investors. Our investor relations department has arranged interviews and site visits for investors and organized reverse roadshows from time to time. The team has also actively attended investors' forums and conducted domestic and overseas roadshows at regular intervals to help investors gain a better understanding of the Company's operating results as well as its strategies and plans for future development. The Company will continue to make great efforts in its investor relations work to further enhance its transparency.

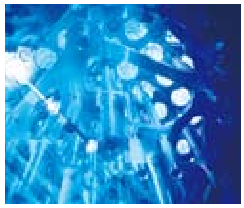
# SUMMARY OF GENERAL MEETINGS

| Session of the meeting | Date of meeting | Designated websites for publishing resolutions | Date of information disclosure for publishing the resolutions |
|---|---|---|---|
| Annual General Meeting of the Company for 2014 | 5 May 2015 | www.hkexnews.hk<br>www.sse.com.cn | 5 May 2015<br>6 May 2015 |
| The first extraordinary general meeting for 2015 | 11 September 2015 | www.hkexnews.hk<br>www.sse.com.cn | 11 September 2015<br>12 September 2015 |

# REPORT
# OF THE DIRECTORS

## Business Review

***During the reporting period, the Company achieved a turnover of RMB78,009 million, representing an increase of 1.6% over the corresponding period of preceding year; the profit attributable to owners of the Company amounted to RMB 2,083 million, representing a decrease of 17.0% over the corresponding period of preceding year.***



# Business Review of Major Business Segments and Geographical Area

## Business Review of Major Business Segments

Unit: 100 million Currency: RMB

| Major Business Segments | Revenue | Cost of Sales | Gross Profit Margin(%) | Year-on-year Change in Revenue(%) | Year-on-year Change in Cost of Sales(%) | Year-on-year Change in Gross Profit Margin |
|---|---|---|---|---|---|---|
| New Energy and Environmental Protection Equipment | 120.92 | 108.79 | 10.0 | 23.7 | 19.9 | +2.8 percentage points |
| High Efficiency and Clean Energy Equipment | 286.97 | 238.85 | 16.8 | 0.0 | 0.2 | -0.1 percentage points |
| Industrial Equipment | 239.45 | 189.98 | 20.7 | -8.0 | -7.6 | -0.3 percentage points |
| Modern Services | 178.24 | 150.81 | 15.4 | -1.7 | -0.5 | -1.0 percentage points |

## Business Review of Geographical Area

Unit: 100 million Currency: RMB

| Major Business Segments | Revenue | Cost of Sales | Gross Profit Margin(%) | Year-on-year Change in Revenue(%) | Year-on-year Change in Cost of Sales(%) | Year-on-year Change in Gross Profit Margin |
|---|---|---|---|---|---|---|
| Mainland China | 692.50 | 570.81 | 17.6 | 4.6 | 6.2 | -1.2 percentage points |
| Other countries and regions | 87.59 | 68.55 | 21.7 | -17.0 | -20.9 | +3.8 percentage points |

Gross profit margin of overseas business increased as compared with the corresponding period over last year, mainly because the power plant engineering project sold during the year had a higher gross profit margin.

## Major Customers

The Company's total sales revenue during the reporting period from five largest customers was RMB8.898 billion, representing 11.4% of the total sales revenue of the Company.

## Major Suppliers

The Company's total purchases amount during the reporting period from five largest suppliers was RMB9.891 billion, representing 16.1% of the total purchases amount of the Company.

## Expenses

During the reporting period, finance expense of the Company increased by 73% as compared with the corresponding period over last year, mainly due to the increase in relevant interest expenses as a result of the issue of A shares convertible bonds of RMB6 billion and bonds of EUR600 million by the Company during the reporting period.

## R&D expenditure

Unit: 100 million Currency: RMB

| | |
|---|---|
| Total R&D expenditure | 24.64 |
| Percentage of total R&D expenditure to sales revenue (%) | 3.2 |

## Elaboration of R&D Expenditure

During the reporting period, our efforts in scientific research have been expended mainly on three major business segments: new energy and environmental protection equipment, high efficiency and clean energy equipment and industrial equipment. The Company focuses on strategic emerging industrial projects and has made great achievement in science and technology in 2015.

### *New energy and environmental protection equipment*

In respect of the third generation nuclear power, the manufacturing of AP1000 entrusted construction project products was fully completed and officially delivered, the products included pressure vessels, steam generators, components for vessel internals, control rod drive mechanisms, etc. Besides, a stage breakthrough was attained in the research and development on nuclear primary pump. The manufacturing of CAP 1400 nuclear primary pump sample was finished and relevant examinations and tests are currently being conducted. For wind power, improvement and modification and serial improvement were made on 2MW and 3.6MW power generation units based on different wind condition requirements, so as to enhance the technology and market competitiveness.

### *High efficiency and clean energy equipment*

Significant outcomes were achieved in the research and development of 1000MW "second reheat" ultra-supercritical power generation units. On 25 September, No. 3 power generation units of Guodian Taizhou Phase II Project（國電泰州二期項目）were successfully put into production, earmarking the first 1000MW "second reheat" coal-fired power generation units, which are independently designed, manufactured and with fully autonomous intellectual properties by the PRC, in the world were officially put into commercial operation. According to the testing data of progress and performance, the power generation rate of the power generation units is 47.82%, 0.82% higher than the domestic and foreign best current level and 1.2% higher than the best level of domestic 1000MW power generation units. The coal consumption of power generation reduced to 256.86g/kWh, 5.34g/ kWh lower than the best current level in the world and 13.34g/kWh lower than the average level of domestic regular 1000MW power generation units. Each of the performance data reached the design and strategic pass requirements, and the overall environmental protection performance is better than the State's ultra-low emission limit.

### *Industrial Equipment*

In respect of the high-speed elevators, further adjustments and improvements were made on core components of LEHY-H high-speed (8m/s) elevator, such as traction machines and control cabinet, based on the early stage of trial, and the product work of functional modification and model specification for the elevators was finished.

## Major Financial Reporting Items and Analysis of Changes

### Major items in the balance sheet and analysis of changes

Unit: 100million; Currency: RMB

| Items | At the end of the period | Percentage at the end of the period to total assets (%) | At the end of the previous period | Percentage at the end of the previous period to total assets (%) | Percentage of change at the end of the period over the end of the previous period (%) | Explanatory notes |
|---|---|---|---|---|---|---|
| Inventories | 210.14 | 13.0 | 240.73 | 16.8 | -12.7 | |
| Trade receivables | 255.23 | 15.7 | 260.56 | 18.2 | -2.0 | |
| Investments | 80.72 | 5.0 | 47.80 | 3.3 | 68.9 | ① |
| Cash and cash equivalents | 365.52 | 22.5 | 251.13 | 17.5 | 45.6 | ② |
| Bonds | 107.93 | 6.7 | 19.93 | 1.4 | 441.5 | ② |
| Trade payables | 282.07 | 17.4 | 269.38 | 18.8 | 4.7 | |
| Other payables and accruals | 517.65 | 31.9 | 472.74 | 32.9 | 9.5 | |

*Other explanation*

① Investments increased as compared with the corresponding period over last year, mainly because the finance company participated in the intra-bank dealing business during the reporting period.

② Cash and cash equivalents and bonds increased as compared with the previous period, mainly because the Company successfully issued convertible bonds of RMB6 billion and bonds of EUR600 million during the reporting period.

### Major items in the statement of profit or loss and analysis of changes

Unit: 100million; Currency: RMB

| Items | Current period | Corresponding period over last year | Percentage of change (%) |
|---|---|---|---|
| Revenue | 780.09 | 767.85 | 1.6 |
| Cost of sales | 639.36 | 624.18 | 2.4 |
| Profit attributable to owers of the Company | 20.83 | 25.11 | -17.0 |
| Other income and gains, net | 31.80 | 13.72 | 131.8 |
| Distribution expenses | 22.05 | 24.37 | -9.5 |
| Administrative expenses | 90.41 | 80.99 | 11.6 |
| Finance cost | 5.12 | 2.96 | 73.0 |
| Net cash flows generated from operating activities | 76.62 | 44.11 | 73.7 |
| Net cash flows generated from investing activities | -28.89 | -34.23 | N/A |
| Net cash flows generated from financing activities | 92.55 | 19.07 | 385.3 |
| R&D expenditure | 24.64 | 28.04 | -12.1 |

## Analysis on changes

Net revenue and other gains increased year on year, mainly due to the Company's strategy of overall exit from printing equipment business with RMB 926 million gain from disposal of Goss International Corporation and Shanghai Guanghua Printing Machinery Co. Ltd.

Finance cost increased as compared with the corresponding period over last year, mainly due to the increase in relevant interest expenses as a result of the issue of convertible bonds of RMB6 billion and bonds of EUR600 million by the Company during the reporting period.

Net cash flows generated from operating activities increased as compared with the corresponding period over last year, mainly due to the collection of payments of new orders proceeded well during the reporting period.

Net cash flows generated from financing activities increased as compared with the corresponding period over last year, mainly due to the issue of convertible bonds and bonds denominated in Euro by the Company during the reporting period.

## Source of Funding and Indebtedness

As at 31 December 2015 the Group had an aggregate amount of bank and other borrowings and bonds of RMB13,202million(2014: RMB7,856 million), representing an increase of RMB5,346 million as compared with that of the beginning of the year. Borrowings and bonds repayable by the Company within one year amounted to RMB2,286 million, representing an decrease of RMB2,723 million as compared with that of the beginning of the year. Borrowings and bonds repayable after one year amounted to RMB10,916 million, representing an increase of RMB8,069 million as compared with that of the beginning of the year.

As at 31 December 2015 all unsecured bank borrowings in the bank and other borrowings of the Group, with the exception of unsecured bank borrowings of USD 3,200,000 (2014: USD 36,645,000), equivalent to RMB 20,780,000 (2014: RMB 222,749,000) and EUR 15,399,000 (2014: EUR 400,000,000), equivalent to RMB 109,259,000 (2014: RMB 2,982,240,000) and HKD 700,000,000 (2014: HKD 700,000,000), equivalent to RMB 586,460,000 (2014: RMB 552,209,000) and MYR 68,600,000 (2014: MYR 33,250,000), equivalent to RMB 103,860,000 (2014: RMB 58,600,000) and JPY 0 (2014: JPY 84,000,000), equivalent to RMB 0 (2014: RMB 4,318,000), are denominated in Renminbi. The cash and cash equivalents of the Group are mainly in Renmingbi.

As at 31 December 2015, gearing ratio of the Group, which represents the ratio of the sum of interest-bearing bank borrowings and other borrowings and bonds to the sum of total equity of the shareholders plus interest-bearing bank borrowings and other borrowings and bonds, was 22.5%, representing an increase of 7.8 percentage points as compared with 14.7% at the beginning of the year.

## Pledge of Assets

As at 31 December 2015, the bank deposits of the Group of RMB632million (2014: RMB628 million) were pledged to banks for bank borrowings or credit facilities. In addition, certain buildings and machineries of the Group, with the net carrying value amounting to RMB341 million as at 31 December 2015 (2014: RMB1,338million), were pledged for certain bank loans of the Group.

## Contingent Liabilities

Please refer to note 46 to the financial statements for details.

## Capital Commitments

Please refer to note 48 to the financial statements for details.

## Analysis on Operational Information by Industries

**The Company is a large-scale comprehensive equipment manufacturing conglomerates. Information by industries in which our main businesses operate is set out as below:**

New energy and environmental protection equipment: As for the nuclear power, 8 sets of power generation units were successfully connected to the power grid and started power generation during 2015 in China, and the total number of units in operation was 30 with the total power generation installed capacity of 28.31GW. At the same time, 6 units commenced construction making up a total of 24 units under construction with an installed capacity of 26.72GW, and the target for "12th Five-Year" plan was basically achieved. According to the target of mid-to-long-term development of nuclear power set by the State, installed capacity for nuclear power shall reach 58GW in 2020, with 30GW under construction. It is expected that during the "13th Five-Year Plan" period, 6-8 units of nuclear power equipment will commence construction every year. A new round of development of nuclear power has already quietly kicked off. As for wind power, in 2015, the wind power installed capacity in China increased to 30.50GW, representing a year-on-year increase of 31.5%; accumulated installed capacity reached 145GW, representing a year-on-year increase of 26.6%. According to "the initial draft of the 13th Five-Year Plan for development of wind power" (《風電發展"十三五"規劃》(初稿)), it is expected that by the end of 2020, the national wind power installed capacity will reach 250GW, including offshore wind power of 12GW. As for the environmental protection, with the deteriorating environmental conditions and the public's strong demand for improving the environment, the State continues to step up the environmental governance magnitude and implement stricter regulations including "10 Clauses for Clear Water Plan" ("水十條"). The aggregate amount of environmental investment of "12th Five-Year" plan was approximately RMB3.1 trillion.

High Efficiency and Clean Energy Equipment: By the end of June 2015, the national utilization hours of power generation units continued to drop to 1,936 hours, representing a decrease of 151 hours as compared to the corresponding period of last year. Among which, the national utilization hours of thermal power equipment was 2,158 hours, representing a decrease of 218 hours as compared to the corresponding period of last year. According to the forecast of IEA2014, the CAGR for the growth of domestic installed capacity of thermal power generators decreased from 5.69% per annum during 2010-2015 to 2.10% per annum over 2015-2020.

Industrial Equipment: Investment-driven rapid growth over the long term encountered demand contraction in both overseas and domestic markets during 2015, thus the demand in domestic elevator market was adversely affected. The elevator industry is undergoing the structural adjustment of insufficient demand with excess production capacity. In the meantime, following the continuous and good development trend of service industries in China, an in-depth integration of "Internet+" with traditional economy, as well as opportunities such as construction of public facilities had offered stable and new momentum for innovative production and operation model of Shanghai Mitsubishi. As at the end of 2015, the accumulated total number of elevators sold by Shanghai Mitsubishi had reached 550,000. Tens of thousands of elevators will be delivered to the domestic market annually within the scheduled period. It is expected that the accumulated total number of elevators sold will reach over 600,000 in 2016 and result in a rapid expansion of the scale of in-use elevator market.

Modern Services: The modern services segment of the Company is mainly engaged in power plant engineering business and financial services providing support to the development of the Group's principal business. In 2015, by building on the national strategy of "One Belt, One Road", we targeted at more than 50 countries and regions along the "One Belt, One Road" as the principal markets of the power plant engineering business. We planned to establish overseas sales network presences in Malaysia, Turkey, Poland, Pakistan and Columbia, to actively accelerate the establishment of network sales outlets and achieve multi-region sales capability. Our power plant engineering business no longer focus solely on thermal power business. We are exploring the markets of new energy and distributed energy. Meanwhile, we strived to move forward the integration between business and finance and further strengthened project investments and project financing. The service of our financial service platform has been expanded, from single internal banking to a financial platform of providing various value-added services with diversified financial services. Our financing company will further enhance the global treasury capability of the Group. Our leasing company will further enhance the supporting strength regarding the core businesses of the Group while our insurance agency company will further enhance the centralized management of the insurance affairs of the Group.

## The Board's Discussion and Analysis on the Future Prospect of the Company

### Industry competition landscape and the development trend

In 2015, conflicts and risks in relation to Chinese economy that have been building up over the years became more evident. The change of pace in economic growth, the difficulties associated with the economic restructuring, and the current change of the drivers of growth affecting one another all increased downward pressure on the economy. In the Central Economic Work Conference held at the end of 2015, it was suggested that the five major tasks for the economic and social development in 2016 was to eliminate overcapacity and excess inventory, deleverage, reduce costs, and supplement deficiency. The optimizing and upgrading of industry structure as well as the corporate mergers and acquisitions and reorganization will become a normal phenomenon in the future.

In the 2016 Government Work Report delivered at the annual session of National People's Congress and Chinese People's Political Consultative Conference concluded lately, Prime Minister Li Keqiang clearly mentioned, "We will work on promoting cleaner and more efficient use of coal and reducing the usage of untreated coal, and initiate the substitution of coal by electricity and natural gas. We will upgrade coal-fired power plants nationwide to achieve ultra-low emission and energy conservation, and accelerate the shutdown of coal-fired boilers that do not meet compulsory standards. We will increase natural gas supply, improve supporting policies for the development of wind, solar, and biomass energy, and increase the proportion of clean energy in total energy consumption. We will encourage the resourceful utilization and restrict open burning of straws." During the 13th Five-Year Plan period, leveraging on our existing industry base and technical advantages, we expected that the Group would have more opportunities in market development and a larger room for business development in respect of various aspects, including distributed power covering wind power and photovoltaic power generation etc. and energy storage system, nuclear power and energy saving, participation in the construction of major energy projects, own research and development of gas turbine, upgrade of coal-fired power plants to achieve ultra-low emissions, etc.

It is anticipated that the annual average demand for energy equipment in the domestic market in the future is as follows: the newly installed thermal power generation capacity will be around 30,000MW to 45,000MW; the newly installed gas turbine capacity will be around 4,000MW to 6,000MW; the newly installed wind power generation capacity will be around 20,000MW; the newly installed nuclear power generation capacity will reach around 6,600MW. As a large scale energy equipment manufacturing group, the Company will continue to strive to enhance our product competitiveness and enlarge our market shares.

### Development strategies of the Company

As the largest integrated equipment manufacturing group in the PRC, we are under double pressure in the new round of economic restructuring and transformation, being the external pressure from rapid changes in the domestic and overseas markets and the internal pressure from our own transformation and development. Facing such difficulties and challenges, we will stay on the general direction and strategic structure of "adhering to the development theme of innovation and development, insisting on pushing ahead development with a direction towards high-end technology, asset-light business structure, group level centralized management and controls, simplified operation structure, product intellectualization" and provide China and the world with more efficient, more environmental protection and more economic energy and industrial equipment as well as comprehensive solutions to develop Shanghai Electric into a Chinese-based multi-national corporation with international competitiveness and brand influence.

*Pursue the path of development with "independent innovation"*

We focus on building the mechanism for technological innovation and catch the trends of technology development in equipment manufacturing industry as well as mainstream technology, with efforts concentrated on digestion, absorption and innovation to set the technical standards and technical specifications of Shanghai Electric. At the same time, we have rationalized the system for technology development, established an effective system of science and technology, and strengthened the construction of the mechanisms for the creation and assessment of science and technology projects. Over the past year, we have achieved excellent results in many areas, even including certain groundbreaking results: we took the lead in mastering the technology of manufacturing high-temperature reactor pressure vessel, which had laid a solid foundation for the development of high temperature reactor project in the PRC; we have successfully developed the world's largest capacity dual internal water cooled generator with capacity of 660MW, the 1905 mm last stage turbine blade, and nuclear half-speed low-pressure rotor, and we have successfully implemented the localization of 4.0MW wind turbine transformer units.

We must take concrete action to implement the "innovation-driven strategy," to stay at the forefront of the transformation and upgrading. We strive to initiate technological innovation, renew development model and uphold the flag as high-end manufacturing enterprise.

*Pursue the path of development with "structure optimization"*

Through an integrated management and control system, Shanghai Electric has transformed from a traditional factory system to modern enterprise system, leveraging the advantages of resource sharing and deployment optimization. The development of technology has shifted from technology transfer to a combination of technology transfer and self-innovation. Meanwhile, we made great efforts to develop advanced manufacturing sector, facilitating the transformation from production-oriented manufacturing to service-oriented manufacturing. We are committed to optimize industrial layout and foster automation sector, environmental protection sector and modern service sector. In addition, we decisively exited from the efficiency-low and outdated sector and embarked on a road of self-possessed development with high quality and efficiency.

Currently, Shanghai Electric endeavors to carry out the transformation to a low-carbon and green dualistic industry structure of "manufacturing and service". With a foothold maintained in Shanghai, we provide nationwide services and cater for the need of the world, and the implementation of the national strategy of "Made in China 2025" will lead our way in the rapid development of the high-end equipment manufacturing business.

*Pursue the path of development with "industrial internationalization"*

The equipment manufacturing industry is facing tough challenges of "dual-directional extrusion" by the developed countries and other developing countries. We must extend our vision to have a global view and step up the strategic deployment to gain a strong footage in the new competitive high ground of manufacturing industry with the view of "industrial internationalization". Over the last year, we undertook China's first export project for 1000 MW ultra-supercritical coal-fired power generating unit and tapped into the overseas market of 1000MW units. We actively implemented the national strategy of "One Belt, One Road". Through innovation of business model, we successfully developed the markets in Pakistan and Egypt and etc. We entered into co-operation with AREVA and took up the subcontract work of manufacturing

six steam generators for a South African nuclear power station, which signified Shanghai Electric's embarking on the international market of the nuclear island main equipment manufacturing field.

Relying on the capability of its high-end equipment manufacturing and its brand influence, Shanghai Electric is realizing the transformation from "Chinese manufacturing" to "Chinese innovation", and a shift to "Chinese Brands" from "Chinese Products". Furthermore, Shanghai Electric will continue active practice of the strategic task of enhancing "Chinese manufacturing" from being "large" to "strong", and wave the flags of Chinese enterprises while marching towards the global market.

### *Pursue the path of development with "deep integration of informatization and industrialization"*

The intensified integration of new generation information technology and manufacturing industry is leading an industry transformation with far-reaching effect, and will have a great impact on the new strategic development of Shanghai Electric, with both opportunities and challenges. In connection with "Made in China 2025" and "Internet Plus", we are formulating the intellectualization development plan of Shanghai Electric with the ideas of: building up a smart enterprise with transformation from traditional manufacturing into digital manufacturing; production intellectualization with transformation from traditional production to smart production; product intellectualization with transformation from merely products to product systems; service intellectualization with transformation from traditional manufacturing to manufacture servitization. Moreover, it is also necessary to improve the standard and efficiency of intelligent management. Shanghai Electric hopes that on the development path of deep integration of informatization and industrialization, it can make advance deployment, take early action and the initiative lead.

### *Pursue the path of "environmental friendly and sustainable" development*

Shanghai Electric insists on taking sustainable development as a key point in its strategic development. It initiates the development of circular economy, improves resource utilization efficiency, builds up a green manufacturing system, and embarks on a green path for development.

We advocate energy conservation and consumption reduction, and reduce pollution to the environment arising from each stage of production process and activities through technological innovation. In addition, we provide our suppliers and customers with solutions on factory energy conservation, building energy conservation and air-conditioning energy conservation so as to make our humble contribution in promoting the completion of an efficient, visible and sustainable target for energy conservation for the society. In recent years, on one hand, Shanghai Electric has been actively promoting high-end technology and making efforts in developing clean energy and green technology, trying to deepen its cultivation in technology fields for high efficiency and clean energy, as well as ultra-low emission and near-zero emission power equipment, and to build up an industrial base; and on the other hand, we have been actively developing the environment protection industry, with core business of developing environment protection, integrated treatment of pollutants, and comprehensive utilization of resources. Currently, we have capabilities in solid waste disposal, sewage treatment, biomass power generation, and contracting environment protection engineering project.

As environment protection is the ever-lasting topic of the human society, Shanghai Electric will continue to explore a more environmental friendly and safer technology development path to bring the society brightness and warmth as well as to maintain clean land, green water and blue sky for China in the future.

## Operational plan

2016 is defined as a year of business transformation and management improvement by Shanghai Electric. Under the conditions of a healthy and stable development, the Company shall cause new changes in industry structure, new breakthroughs in group level centralized management and controls, and simplified operation structure as well as in high end technology and asset-light business structure, and in core business development. In response to "made in China 2025", we will continue to pursue the concept of "One Company" and adhere to the principle of stable and steady development with a focus on cash flow generation. Driven by our development, we will make progress in technology, cultivate new growth area, enhance our management and undergo transformation into a quality and efficiency focused corporate group.

The Group's target for 2016 is to maintain active and steady development and to achieve an increase in turnover compared to that of 2015. We will further improve the profitability of our principal business, return on assets and cash flows generation by enhancing our management. In the coming year we will focus on the following:

1. *Implement dynamic management and deepen studies*

   In 2016, we will start dynamic management and assessment of "3+3" strategy of Shanghai Electric. In order to implement the deepening studies of "3+3" strategy, we need not only to maintain our presence in the existing industries, but also jump out of the existing industries, doing studies in an overall high point to provide decision and support for the future industry development of the Group.

2. *Achieve new breakthroughs in core business development*

   Core businesses are essential to the transformation of Shanghai Electric. The primary target for the core businesses such as nuclear power, wind-power, thermal power, power transmission and distribution equipment, and elevator in 2016 is to maintain their respective steady and healthy conditions with continuous improvement in competitiveness and profitability. On the other hand, each core business must pursue breakthroughs with development highlights in 2016 in order to drive the development of Shanghai Electric as a whole.

3. *Make great efforts in industry structure adjustment*

   In 2016, we will accelerate the industrial layout in key industry areas (including upgrade of traditional energy, new energy, environment protection, power transmission and distribution, energy storage, intelligent robot, industrial equipment, etc.), and actively expedite the development of environment protection industry and automation industry. Guided by the Group's strategic direction, we will grasp the favorable opportunities emerged during current global economic downturn and lower valuation for potential acquisition targets, actively and steadily make progress through mergers and acquisitions.

4. *Increase the market share of our core products*

In 2016, we will continue to coordinate the market resources and ultimately realize the customer market resources sharing through analyzing the overseas business, segment market expansion, major customer management and development of overseas offices. We will pay more attention to the marketing and orders, continuously make adjustment in our marketing and sales strategies and continue to increase the market share of our core products.

5. *Push ahead development towards group level centralized management and controls and simplified operation structure*

2016 is a year of management improvement. We will focus on promoting the implementation of top-down design proposal for management and controls and accelerate construction of corporate service center where we will centralize certain services sharing function of the Group. We will complete the proposal for the construction of the corporate service center and continue to promote the establishment of human resources sharing services centers and financial services sharing centers.

6. *Achieve high-end technology and intelligent products*

In 2016, we will establish science and technology synergy platform of the Group through internal integration; improve the systems for incubation, innovation and development of new technology; introduce investment in science and technology into product research and development system so as to improve yield rates of science and technology projects; promote science and technology assessment work to further enhance concentration on the investment in science and technology, which in turn to achieve new breakthroughs in development towards high-end technology and intelligent products.

## Potential Risks

### 1. *Market Risks*

Equipment manufacturing industry can be, to a greater extent, affected by the public investment in fixed assets and, to a greater extent, correlated to national economic growth. Changes in the macro economy and cyclical fluctuations in industry development may bring about challenges to the sustainable development of the Company.

The Company will continue to pay attention and regularly analyze the possible influence from the global and domestic macroeconomic trends on the Company so as to develop responsive measures in a timely manner. Meanwhile, the Company will timely adjust management measures to raise the corporate management efficiency, and actively develop its business model in an innovative manner. We will seek the most effective solutions to address all challenges from changes in the domestic and overseas markets.

### 2. *Overseas Business Risks*

With the continuous expansion of its overseas presence, the Company's exposure to possible risks resulting from changes in political or economic landscapes in certain overseas countries, in which the Company is operating, are increasing. There is also escalating risks of commercial disputes between the Company and its foreign customers and business partners.

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

### 3. *Exchange Rate Fluctuation Risks*

The Company's businesses in power plant equipment, power plant engineering and power transmission and distribution engineering involve export business and their contract amounts are large and usually denominated in US dollars. In the process of its production, the Company needs to purchase imported equipment and components and the contracts are also denominated in major foreign currencies, such as US dollars. If the range of fluctuation of exchange rates between RMB and major foreign currencies, such as US dollars, tends to expand, the Company may be exposed to an increasing exchange risk. In this regard, the Company will utilize more hedging instruments and increase its RMB settlement scope in cross-border trades, lock-in certain exchange rates to reduce exchange risks and exercise better control over the costs of its overseas projects.

## Use of Proceeds from Financing Activities and Capital Utilization Plan

Under the complicating economic conditions in the macro environment, we adhered to the scientific and cautious investment philosophy and maintain an appropriate investment scale. In March 2013, the Company completed the issue of corporate bonds of RMB2 billion by public offer with net proceeds being used to supplement working capital of the Company. As of March 2016, the balance of outstanding corporate bonds was RMB1.6 billion.

In February 2015, the Company completed the issue of A Share convertible corporate bonds amounting to RMB6 billion, and the net proceeds were used for the Iraq Wassit II Thermal Power Plant EPC project, India SASAN Thermal Power Plant BTG project and Vietnam Vinh Tan II Coal-fired Power Plant EPC project and as the capital contribution to Shanghai Electric Leasing Co., Ltd.

On 22 May 2015, Shanghai Electric Newage Company Limited, a wholly-owned subsidiary of the Company, issued offshore bonds in the amount of EUR600 million and had such Eurobonds listed and traded on the Irish Stock Exchange on 25 May 2015. The Eurobonds are guaranteed by the Group and have a term of 5 years with annual interest rate of 1.125%. The proceeds from the bonds were mainly used for repayment of the bridge loan obtained in connection with the acquisition of 40% equity interest in Ansaldo Energia S.p.A. and related interests and fees.

## Reasons for and Impact Resulted from Changes in Accounting Policies and Accounting Estimates or Correction of Material Accounting Errors of the Company

None.

## Proposals for Profit Distribution or Appropriation from Capital Reserves to Share Capital

As audited by PricewaterhouseCoopers Zhong Tian LLP, the net profit of the parent set out in the financial statements prepared in accordance with the PRC GAAP amounted to RMB10, 217,000 in 2015, and the opening unappropriated profit in 2015 amounted to RMB9,113,719,000. After a profit appropriation for 2014 of RMB753,132,000 and a transfer to statutory surplus reserve of RMB1,022,000, profit available for distribution amounted to RMB8,369,782,000. As audited by PricewaterhouseCoopers Zhong Tian LLP, the Company's net profit attributable to owners of the Company for 2015 based on the PRC GAAP amounted to RMB2,128,574,000, and as audited by PricewaterhouseCoopers, the Company's net profit attributable to owners of the Company based on Hong Kong Financial Reporting Standards amounted to RMB2,082,909,000.

As considered and approved by the Board and the general meeting of the Company, the Company proposed to commence the assets swap and assets acquisition by issuance of the shares as well as supporting fund raising with Shanghai Electric (Group) Corporation (the "Transactions"). On 26 January 2016, China Securities Regulatory Commission officially accepted the application of assets acquisition by issuance of the shares as well as supporting fund raising by the Company. In order to ensure the successful implementation of the Transactions and also for the long-term consideration for the Company's development and shareholders' benefit, along with Article 17 of the Measures for the Administration of Securities Issuance and Underwriting (《證券發行與承銷管理辦法》), which provides that, "If any profit distribution scheme or the scheme of capitalization from capital public reserve has not been submitted to the shareholders' meeting for voting, or such scheme has not been implemented upon voting and approval by the shareholders' meeting, the listed company shall issue the securities after such scheme is implemented. Before relevant plan is implemented, the lead underwriter shall not underwrite the securities issued by the listed company", the Company, after due discussion, decided not to proceed with any profit distribution nor appropriation from capital reserves to share capital for the year 2015.

## Closure of Register of Members

The Company will notify shareholders on a later date about the date of annual general meeting for the year 2015 as well as the corresponding period for closure of register of members.

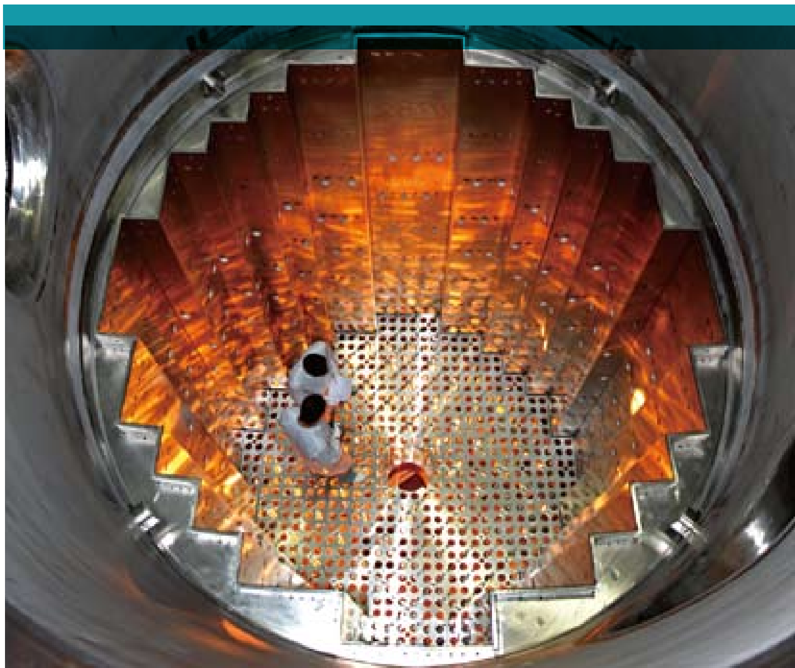
## Contract of Significance

During the reporting period, save as the disclosed Agreement in relation to Assets Swap and Assets Acquisition by Issuance of Shares and Share Purchase Agreements, the Company did not have any contract of significance between the Company or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries (as defined in Appendix 16 to the Hong Kong Listing Rules).

## Equity-linked Agreement

### 1. A Share Convertible Corporate Bonds

In January 2015, CSRC approved the Company's proposed issuances of A share convertible corporate bonds in an aggregate sum of RMB6.0 billion. In February 2015, the Company completed issuing a total of 60,000,000 A share convertible corporate bonds with a nominal value of RMB100 each (the "Electric Convertible Bonds"), amounting to RMB6 billion in aggregate. The Electric Convertible Bonds were listed



on the Shanghai Stock Exchange as from 16 February 2015 under the bond code of "113008". The initial conversion price of the Electric Convertible Bonds was RMB10.72 per A Share and the conversion price was adjusted from RMB10.72 per share to RMB10.66 per share from 2 July 2015. The term of the Electric Convertible Bonds commences from 2 February 2015 and ends on 1 February 2021 and the conversion period commences from 3 August 2015 and ends on 1 February 2021. As at 31 December 2015, the Electric Convertible Bonds amounting to RMB 7,233,087 have been converted to 678,526 A shares based on the conversion price of RMB10.66 per A share. As at 31 December 2015, the unconverted Electric Convertible Bonds amounted to RMB5,992,766,000. For details, please refer to the announcements of the Company dated 20 January 2015, 28 January 2015, 11 February 2015, 25 June 2015 and 27 July 2015 and Note 41 to the consolidated financial statements of this report.

### 2. Assets Restructuring and Placing of A shares

The details of this transaction are set out in the section headed "Significant Events — Discloseable Transaction and Connected Transaction" of this report, the announcements of the Company dated 6 December 2015 and 14 March 2016, the circular of the Company dated 31 December 2015 and Note 25 to the consolidated financial statements of this report.

During the reporting period, save as the disclosed A share convertible corporate bonds and assets restructuring and placing of A shares, no other equity-linked agreements were entered into by the Company or subsisted during or at the end of the year that will or may result in the Company issuing shares, or requiring the Company to enter into any agreement that will or may result in the Company issuing shares

## Donations

The Group actively fulfilled its social responsibilities, and the total expenses of the Group for public welfare projects, charity donations, poverty supporting donations and education sponsorship in 2015 was RMB2.833 million.

## Compliance with Relevant Laws and Regulations

As a public company listed in Mainland China and Hong Kong, the Company has formulated and continuously improved various rules and regulations in strict compliance with requirements of relevant laws and regulations and normative documents in the places where the Company is listed, including the Company Law of the People's Republic of China, the Administrative Rules for Listed Companies, Appendix 14 Corporate Governance Code and Corporate Governance Report to Hong Kong Listing Rules as well as the provisions of the Articles of Association of the Company, to standardize the operation of the Company. The Company is committed to continuously maintaining and improving the Company's good image in the market.

## Environmental Policies and Performance of the Company

The Company insists on taking sustainable development as a key point in its strategic development. The Company initiates the development of circular economy, improves resource utilization efficiency, builds up an environment friendly manufacturing system, and embarks on an environment friendly path for development.

The Company has a safe production and environmental protection committee ("the Committee"). The President served as the director of the Committee and is responsible for the management and the operation of the Committee regarding safe production and environmental protection system of the Group. The Committee members comprise the major responsible persons of the Group's major industrial and production departments.

During the reporting period, the Company advocated energy conservation and consumption reduction, and reduced pollution to the environment arising from each stage of production process and activities through technological innovation. In addition, the Company provided its suppliers and customers with solutions on factory energy conservation, building energy conservation and air-conditioning energy conservation so as to make its humble contribution in promoting the completion of an efficient, visible and sustainable target for energy conservation for the society. In recent years, on the one hand, the Company has been actively promoting high-end technology and making efforts in developing clean energy and green technology, trying to deepen its cultivation in technology fields for high efficiency and clean energy, as well as ultra-low emission and near-zero emission, and to build up an industrial base; and on the other hand, the Company has been actively developing the environment protection industry, in order to promote the core business of developing environment protection, integrated treatment of pollutants, and comprehensive utilization of resources. Currently, the Company has capabilities in solid waste treatment, sewage treatment, biomass power generation, and contracting environment protection engineering project.

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

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

## Reserves

Details of the movements in the reserves of the Group during the year were set out in note 44 to the financial statements and the consolidated statement of changes in equity.

## Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group during the year were set out in note 19 to the financial statements.

## Right of Directors to acquire shares and debentures

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

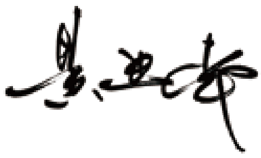
## Sufficiency of Public float

Based on publicly available information and to the best knowledge of the Directors, the Board of the Directors confirms that the Company has maintained sufficient public float as at the date of this report.

## Pre-emptive Rights Arrangement

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

CHAIRMAN AND CEO



# SIGNIFICANT EVENTS

## Explanation on equity interests in other listed companies held by the Company

Unit: Yuan Currency: RMB

| No. | Stock abbreviation | Initial investment amount | Equity share (%) | Carrying amount as at the end of the period | Gain or loss during the reporting period | Changes in owners' equity during the reporting period | Account | Resource of shares |
|---|---|---|---|---|---|---|---|---|
| 600642 | Shenergy | 2,800,000 | 0.06 | 20,385,000 | 0 | 2,207,250 | Available-for-sale financial assets | Purchase |
| 601328 | BOCOM | 9,122,809 | 0.01 | 38,971,293 | 0 | -1,779,873 | Available-for-sale financial assets | Purchase |
| 600000 | SPDB | 767,760 | 0.02 | 58,920,750 | 0 | 7,072,425 | Available-for-sale financial assets | Purchase |
| 600845 | Baosight | 4,912,000 | 0.48 | 101,474,100 | 0 | 36,279,360 | Available-for-sale financial assets | Purchase |
| 600610 | Shanghai Zhongyida | 760,000 | 0.1 | 13,034,736 | 0 | 3,660,228 | Available-for-sale financial assets | Purchase |
| 600643 | AJG | 70,000 | 0.003 | 543,544 | 0 | 25,879 | Available-for-sale financial assets | Purchase |
| 600082 | HiTech Develop | 270,000 | 0.05 | 2,502,630 | 0 | 68,445 | Available-for-sale financial assets | Purchase |
| 600618 | SCAC | 1,240,008 | 0.03 | 5,468,232 | 0 | 1,572,879 | Available-for-sale financial assets | Purchase |
| 600633 | Zhejiang Daily Media | 7,471,992 | 1.44 | 82,520,592 | 0 | 2,103,552 | Available-for-sale financial assets | Purchase |
| 000501 | Wu Han Department Store Group Co., Ltd.A | 353,609 | 0.03 | 3,192,923 | 0 | 624,411 | Available-for-sale financial assets | Purchase |
| 600665 | Tande Co., Ltd. | 1,399,200 | 0.09 | 6,090,480 | 0 | 1,057,320 | Available-for-sale financial assets | Purchase |
| 600027 | HDPI A-share | 234,000,016 | 0.76 | 510,000,034 | 0 | -11,250,001 | Available-for-sale financial assets | Purchase |
| Total | | 263,167,394 | / | 843,104,314 | 0 | 41,641,875 | / | / |

The Company's wholly-owned subsidiary, Shanghai Electric Group Hong Kong Co., Ltd., increased shareholding in the Company's subsidiary Shanghai Mechanical & Electrical Industry Co., Ltd.("SMEI") by purchasing 2,932,125 B-shares (or 0.29% of total issued share capital of SMEI) through Shanghai Stock Exchange in 2015. On 31 December 2015, the Company holds 484,220,364 A-shares and 3,405,956 B-shares, accounting for 47.68% of total issued share capital of SMEI.

Future shareholding increase plan: will not exceed 2% (including the initial increase) of the total issued share capital of SMEI within the 12 months from initial increase. The company will not reduce its shareholding in SMEI during the implementation period of the shareholding increase plan.

## Connected Transactions and Continuing Connected Transactions

According to the provisions of Hong Kong Listing Rules, the connected transactions and continuing connected transactions between the Company and its subsidiaries (the "Group") and connected persons for the year ended 31 December 2015 are disclosed in detail as follows.

### Connected transactions

On 17 March 2015, the Board of the Company approved the proposal that the Company, Shanghai Electric Hongkong Co., Limited, a wholly-owned subsidiary of the Company, and Shanghai Electric Group Hongkong Company Limited, a wholly-owned subsidiary of Shanghai Electric (Group) Corporation (the "SE Corporation") (the controlling shareholder of the Company), jointly established Shanghai Electric (Anhui) Investment Co., Ltd. (the "Shanghai Electric Anhui"). On 29 September 2015, the Board of the Company approved to change the establishment plan of the Shanghai Electric Anhui, pursuant to which, the Company set up the Shanghai Electric Anhui as a wholly-owned subsidiary. The total registered capital of the Shanghai Electric Anhui is RMB300 million. The establishment of the Shanghai Electric Anhui is in line with the trend for environmental protection and clean energy projects in Anhui Province, and helps the Company seize the development opportunities of environmental protection equipment and accelerate the development of its environmental protection business. During the reporting period, such transaction had been completed.

On 25 June 2015, the Board of the Company approved the capital injection by SE Corporation, the controlling shareholder of the Company, for a total amount of RMB69,421,430.12 into Shanghai Electric Wind Power Equipment Co., Ltd. (the "Wind Power Company"), a wholly-owned subsidiary of the Company. After the capital injection, capital contribution of SE Corporation represents 3.23% of the total registered capital of the Wind Power Company and which will continue to be a subsidiary of the Company. Pursuant to PRC laws and regulations, regarding the tax refund from importing material parts and components during the period from 1 January 2008 to 30 June 2009, with a total amount of RMB69,421,430.12, the Wind Power Company is required to transfer it into national capital within a specified period. The Company agreed to treat the tax refund as the capital contribution from SE Corporation to the Wind Power Company to increase the investment in research and development activities of the Wind Power Company, and therefore to improve its competitiveness in the wind power industry. During the reporting period, such transaction had been completed.

On 24 July 2015, the Board of the Company approved the proposal that Shanghai Electric Hongkong Co. Limited, a wholly-owned subsidiary of the Company, and Shanghai Electric Group Hongkong Company Limited, a wholly-owned subsidiary of SE Corporation, jointly established Pakistan

Thar Coal Block I Power (Dubai) Limited Company (the "Dubai Company") in Dubai. The total registered capital of the Dubai Company is US$5.0million. The purpose of the establishment of the Dubai Company in Dubai is to set up an investment vehicle for construction of a mine mouth power plant of two 660MW coal-fired power generation units in Thar Coalfiled Block-1. The power plant project has the Company's high parameter 660MW supercritical generation units installed and is the first general contracting project of the Company on coal-fired supercritical units in the international market, which would lay the foundation for the Company to explore its overseas market on supercritical coal-fired power generation equipment. During the reporting period, such transaction had been completed.

On 27 July 2015, the Board of the Company approved the proposal that SE Corporation and Shanghai Mechanical & Electrical Industry Co., Ltd. (the "SMEI"), a non-wholly owned subsidiary of the Company, converted the debt interest into the equity interest in Goss International Corporation. SE Corporation and the SMEI held debt interest in Goss International Corporation in the amount of US$229.455 million and US$15.6152 million, respectively. After the debt-to-equity swap, SE Corporation and the SMEI held 93.63% and 6.37% of the equity interest in Goss International Corporation, respectively. Accordingly, Goss International Corporation was no longer a direct subsidiary of the SMEI or an indirect subsidiary of the Company. The debt-to-equity swap reduces the negative impact brought by the printing machine business on the Company and facilitates the exiting of the printing machine business by the Company. During the reporting period, such transaction had been completed.

## Continuing Connected Transactions

### Connected Transactions with SE Corporation

### Framework sales agreement

The Company entered into a framework sales agreement with SE Corporation on 30 October 2013, pursuant to which the Group agrees to provide electrical engineering products, electrical equipment, and other related services to SE Corporation and its subsidiaries and associates (the "Parent Group"). Pursuant to the agreement, the annual cap of the relevant sales for the year ended 31 December 2015 was estimated to be RMB 500,000,000.

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

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices;
- prices no less than any pricing guidelines or pricing recommendations set by the PRC Government (if any); and if there are no such pricing guidelines or recommendations;
- with reference to the market price; and if there is no market price for a particular product; and
- an agreed price consisting of the actual or reasonable cost incurred thereof plus a reasonable profit margin.

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

The actual sales to the Parent Group for the year ended 31 December 2015 was RMB 116,090,000.

### Framework purchase agreement

The Company entered into a framework purchase agreement with SE Corporation on 30 October 2013, pursuant to which the Group agrees to purchase, on a nonexclusive basis, certain component parts, such as turbine blades, coupling, AC motor and emergency trip control cabinet, automatic instruments, other mechanical equipment and raw materials (including copper wires and insulation materials) from the Parent Group. Pursuant to the agreement, the annual cap of the relevant purchases for the year ended 31 December 2015 was estimated to be RMB 1,700,000,000.

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

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

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

The actual purchase from the Parent Group for the year ended 31 December 2015 was RMB 470,100,000.

## Framework financial services agreement

On 30 October 2013, Shanghai Electric Group Finance Co., Ltd. ("Finance Company"), a subsidiary of the Company, entered into various financial services agreements with SE Corporation, pursuant to which Finance Company provides deposit and loan services to the Parent Group.

The Directors of the Company believe that these framework financial services agreements are entered into in the ordinary course of business of the Group and are on normal commercial terms. The term of the framework financial services agreements is three years, renewable at the option of the Company for another term of three years by giving three months' notice prior to the expiry of the term and may be terminated by either party to the agreement by giving three months' notice.

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

### *(i) Framework deposit agreement*

On 30 October 2013, Finance Company entered into a framework deposit agreement with SE Corporation in relation to the deposit services provided by Finance Company. On 17 March 2015, the Board of the Company approved the proposal that the estimated annual caps for the transactions contemplated under the SE Corporation framework deposit agreement for the years ending 31 December 2015 and 2016 be increased to RMB7.5 billion and RMB7.5 billion, respectively. On 5 May 2015, the shareholders of the Company approved the proposal during the annual general meeting. The approved annual cap, representing the maximum daily balance of funds (including interests) that may be deposited, for the year ended 31 December 2015 was estimated to be RMB7,500,000,000. The interest rates offered by Finance Company for the deposits placed by the Parent Group shall be:

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

The actual daily balance of funds from the Parent Group for the year ended 31 December 2015 did not exceed the approved annual cap of RMB 7,500,000,000. Besides, the Parent Group received interest income of RMB 72,610,000 for the deposits from Finance Company for the year ended 31 December 2015.

### *(ii) Framework loan agreement*

On 30 October 2013, Finance Company entered into a framework loan agreement with SE Corporation in relation to the loan and bills services provided by Finance Company and the payment shall be in accordance with the face amount of the instrument. On 17 March 2015, the Board of the Company approved the proposal that the estimated annual caps for the transactions contemplated under the SE Corporation framework loan agreement for the years ending 31 December 2015 and 2016 be increased to RMB8.8 billion and RMB8.8 billion, respectively. On 5 May 2015, the shareholders of the Company approved the proposal during the annual general meeting. The approved annual cap, representing the maximum daily balance of loans that may be extended and discounted bills that may be purchased (including interests), for the year ended 31 December 2015 was estimated to be RMB8,800,000,000. The interest rates offered by Finance Company for all loan services and purchases of discounted bills provided to the Parent Group shall be:

- subject to the relevant guidelines and regulations of the PBOC; and
- with reference to the relevant rates set by PBOC from time to time and are in line with the market rates.

The actual daily balance of outstanding loans and discounted bills from the Parent Group in the year ended 31 December 2015 did not exceed the approved annual cap of RMB8,800,000,000. Besides, the Parent Group paid interest of RMB146,460,000, which was derived from loans and discounted bills, to Finance Company for the year ended 31 December 2015.

## Framework guarantee agreement

On 10 February 2015, Finance Company entered into a framework guarantee agreement with SE Corporation in relation to the guarantee services provided by Finance Company in the form of issuing electronic bank acceptance, pursuant to which, the approved annual cap for the year ended 31 December 2015 was estimated to be RMB550,000,000.

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

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

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

The actual guarantee services to the Parent Group did not exceed the approved annual cap of RMB550,000,000 in the year ended 31 December 2015.

## Continuing connected transactions with Siemens

On 23 January 2009, the Company entered into a framework purchase and sales agreement with Siemens Aktiengesellschaft ("Siemens", who indirectly owns more than 10% of the registered capital in certain subsidiaries of the Company), pursuant to which the Group has agreed to purchase certain power generation, distribution and transmission related electrical and mechanical components from Siemens and its subsidiaries and associates ("Siemens Group") to be used in various projects and products of the Group, and the Group will sell certain power generation equipment and related components to Siemens Group.

In view of the expiry of the above framework purchase and sales agreement on 23 January 2012, the Company intended to maintain the purchase and sales transactions under the existing framework purchase and sales agreement with Siemens going forward and renew the annual caps for the three years ending 31 December 2017. The renewed annual caps of relevant purchase for the three years ending 31 December 2017 were estimated to be RMB1,600,000,000, RMB2,200,000,000 and RMB2,200,000,000.

In October 2011, the Company applied to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the waiver from strict compliance with Rule 14A.35 (1) of the Hong Kong Listing Rules, in accordance with which, the Company would be required to enter into a written agreement with Siemens in respect of the renewal continuing connected transactions (the "Renewal CCT"). The waiver has been conditionally granted by the Stock Exchange on 4 November 2011, subject to and on the waiver conditions. On 8 December 2011, the board of directors approved the waiver of written framework agreement and the Renewal CCT.

On 29 May 2012, the Independent Shareholders approved the waiver of written framework agreement and the Renewal CCT.

In January 2015, the Company applied for exemption in strictly following Hong Kong Listing Rules 14A.34 and 14A.51which provides that the Company shall enter into a framework agreement with Siemens on renewal continuing connected transactions. The waiver has been conditionally granted by the Stock Exchange on 10 February 2015, subject to and on the waiver conditions, and the framework agreement and the updated annual caps of continuing connected transactions were approved by the Board of Directors.

Written agreements are and will continue to be entered into for each of the continuing connected transactions, and the consideration of each of the continuing connected transactions is and will continue to be determined successively in accordance with the following pricing policies:

– in respect of the purchase transactions where the components and/or technologies are generally available in the market (mainly used in transmission & distribution equipment), market price, which is determined by reference to the prevailing market rates for similar or the same components and/or technologies available on an arm's length basis from independent third parties.
– in respect of the purchase transactions where the components and/or technologies can only be provided by the Siemens Group due to its unique technology (mainly used in power equipment) while similar components and/or technologies provided by other suppliers currently do not match well with the Company's certain power equipment which renders the contemporaneous quotations from independent third parties not available, the Group may refer to (1) prices of relevant transactions for the last year, (2) market trend of the prices for similar components and/or technologies domestically and internationally, and (3) business plan of the Group, and negotiate with the Siemens Group in good faith.

The actual purchase from the Siemens Group for the year ended 31 December 2015 was RMB 120,310,000.

## Framework purchase agreement with Mitsubishi Electric

Mitsubishi Electric Corporation ("Mitsubishi Electric") holds more than 10% of the equity interest in Shanghai Mitsubishi Elevator Co., Ltd. ("SMEC"), being a subsidiary of the Company. Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. ("MESMEE") is held as to 40% by Shanghai Mechanical & Electrical Industry Co., Ltd., a 47.68% owned subsidiary of the Company, 40% by Mitsubishi Electric and 20% by Mitsubishi Electric Building Techno-service Co., Ltd., a wholly-owned subsidiary of Mitsubishi Electric.

SMEC entered into a framework purchase agreement with MESMEE on 28 March 2013, in relation to the purchase of certain elevators, related components and services from MESMEE by SMEC, and renewed the framework purchase agreement on 17 March 2015.

Pursuant to the agreement, the annual caps of the relevant purchases for the two years ended 31 December 2016 were estimated to be RMB 4,000,000,000 and RMB 5,000,000,000, respectively. The price of products to be purchased from MESMEE is determined principally at arm's length by commercial negotiations in accordance with general principles of fairness and reasonableness with reference to the market price.

The Directors of the Company believe that the revisions of the annual caps are based on normal commercial terms, and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The term of the framework purchase agreement is two years commencing on 17 March 2015, renewable at the option of SMEC by giving three months' notice prior to the expiry of the agreement.

The actual purchases from MESMEE by the Group for the year ended 31 December 2015 were RMB2,584,620,000.

## Framework sales agreement with SMEPC

State Grid Shanghai Municipal Electric Power Company ("SMEPC") holds more than 10% equity interest of Shanghai Electric Transmission and Distribution Group Co., Ltd. a subsidiary of the Company, and purchases transmission and distribution products from the Group since 2012.

As the Company devotes to increase sales and profits of transmission and distribution products, the company anticipates that the group will continuously trade with SMEPC Group over the next couple of years. Therefore, in February 2015, the Company applied to the Stock Exchange for the waiver from strict compliance with Rule 14A.34 and Rule 14A.51 of the Hong Kong Listing Rules. According to this listing rule, the Company needs to enter into a written framework agreement for continuing connected transactions. The waiver has been conditionally granted by the Stock Exchange on 22 April 2015, only if the company apply for and eligible for the exemption conditions, the grant will come into effect. On 24 April 2015, the Board of Directors of the Company approved the waiver of entering into framework agreement and the annual caps of continuing connected transactions.

The approved annual caps for the three years ended 31 December 2017 were RMB 4,000,000,000, RMB 4,000,000,000 and RMB 4,000,000,000.

As the Company needs to take part in open, strict and independent bidding process in order to obtain the orders and enter into each of the continuing connected transactions, the Company will adopt the following methods and procedures to ensure that the bidding price is fair and reasonable:

- the sales department of the relevant subsidiary will collect all winning prices of the subject product (including prices of other bid winners) in the preceding year and calculate an average winning price;
- the financial department of the relevant subsidiary will use such average winning price to calculate the Base Margin based on the Company's own costs;
- the sales department of the relevant subsidiary will propose a bidding price which represents a profit margin of up to 10% upwards or downwards from the Base Margin based on the trend for changes in historical winning prices of a target product, the trend for changes in prices and supplies of relevant raw materials, the overall competitiveness of target products, the Company's production capacity for target products and the expected competition status in a specific bidding;
- management (which refers to senior management responsible for daily operation and generally comprises the general manager, the vice general manager in charge of sales, the head of financial department, the head of sales department and etc.) of the relevant subsidiary will review and decide whether or not to approve such bidding price according to market conditions.

The sales of the Group to the SMEPC Group is RMB 3,917,990,000 for the year ended 31 December 2015.

The independent non-executive directors of the Company have reviewed the abovementioned continuing connected transactions and confirmed that the transactions have been entered into:

- in the ordinary and usual course of business of the Company;
- on normal commercial terms or better; and
- according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have provided a letter to the Board:

- nothing has come to their attention that causes them to believe that such disclosed continuing connected transactions have not been approved by the Board ;
- nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Company in relation to the transactions involve the provision of goods or services by the Company;
- nothing has come to their attention that causes them to believe that such continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- nothing has come to their attention that causes them to believe that such continuing connected transactions have exceeded the annual caps made by the Company.

## Discloseable Transaction and Connected Transaction

### Assets Restructuring and Placing of A Shares

On 2 December 2015, the Board approved the assets restructuring and the placing of A shares (the "Transactions"). On 18 January 2016, the Transactions were approved by the shareholders of the Company at the 2016 first extraordinary general meeting, the 2016 first A shares class meeting and the 2016 first H shares class meeting.

On 2 December 2015, the Company and Shanghai Electric (Group) Corporation ("SEC"), the controlling shareholder of the Company, entered into the Agreement in relation to Assets Swap and Assets Acquisition by Issuance of Shares (the "Restructuring Agreement"), pursuant to which, the Company proposed to conduct an assets swap for its 100% equity interests in Shanghai Heavy Machinery Plant Co., Ltd., at a value of RMB1.00, with the equivalent portion of 100% equity interests in Shanghai Electric Industrial Company Limited, 61% equity interests in Shanghai DENSO Fuel Injection Co., Ltd., 100% equity interests in Shanghai Blower Works Co., Ltd. and 14.79% equity interests in Shanghai Rail Traffic Equipment Development Co., Ltd. held by SEC. The difference between the consideration for the equity interests of the incoming assets and that for the outgoing assets of RMB3,400,913,224 and the consideration for the land use rights for 14 parcels of land located at Shanghai, the PRC, the buildings and structures erected thereon with certain auxiliary facilities together with equipment and machines held by SEC (the "Target Properties") of the incoming assets of RMB2,916,326,263 will be settled by the way of issuance 606,843,370 consideration shares by the Company to SEC at the issue price of RMB10.41 per consideration share. The consideration of the abovementioned incoming assets and outgoing assets were determined after an arm's length negotiation based on the valuation of such assets as at valuation benchmark date (30 September 2015) as confirmed in the assets valuation reports issued by the qualified PRC valuers. The assets restructuring will enhance the asset quality of the Company and increase the diversity of products, which will raise the core competitiveness and continued profitability of the Company.

On 2 December 2015, the Company and each of the target subscribers entered into the Share Subscription Agreement, respectively, pursuant to which, the Company proposed to issue 336,215,171 A shares to nine specific investors, including SEC, at the issue price of RMB10.41 per A share. The amount of proceeds to be raised from the placing of A shares will be RMB3.5 billion. The result of the placing of A shares, whether successful or not, shall not affect the implementation of the transactions contemplated under the Restructuring Agreement. The proceeds raised from the placing of A shares were intended to invest in the following projects: as to RMB500 million will be applied to Hualong No. 1 Nuclear Island Major Equipment Design, Manufacturing and Industrialization project, as to RMB600 million will be applied to Technology Innovation and Management Optimization Pillar project, as to RMB500 million will be applied to Industry Upgrading and Research and Development Capabilities Enhancement project, as to RMB500 million will be used to increase the capital in Shanghai Electric Group Finance Co., Ltd, as to RMB1.2 billion will be used to increase the capital in Shanghai Electric Hong Kong Co., Ltd., and the remaining RMB200 million will be used to replenish general working capital of the Company. The placing of A shares may promote the overall business development of the Company and further enhance the synergies between the Company and the entities within the incoming assets so as to improve the integration performance of the assets restructuring.

As the highest applicable percentage ratio of the transactions contemplated under the Restructuring Agreement, aggregated with the applicable ratios for the previous transactions, is more than 5% but less than 25%, such transactions contemplated under the Restructuring Agreement constitute a discloseable transaction of the Company under the Hong Kong Listing Rules. As SEC is a connected person of the Company, the Transactions constitute connected transactions under the Hong Kong Listing Rules.

The Restructuring Agreement and the Share Subscription Agreements are conditional upon the fulfillment of certain conditions precedent. During the reporting period, such matter was still in progress. For further details, please refer to the announcement of the Company dated 6 December 2015 and the circular of the Company dated 31 December 2015.

## Significant Related Party Transactions

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules in respect of the above connected transactions. Save as disclosed above, significant related party transactions which do not constitute the connected transactions under the Hong Kong Listing Rules during the year have been disclosed in Note 51 to the annual financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

## Appointment, removal and remuneration of auditors

| Particulars of change in auditors in the preceding three years | 2015 | 2014 | 2013 |
|---|---|---|---|
| Name of the PRC auditor | PricewaterhouseCoopers Zhong Tian LLP | PricewaterhouseCoopers Zhong Tian LLP | Ernst & Young Hua Ming LLP |
| Name of the international auditor | PricewaterhouseCoopers LLP | PricewaterhouseCoopers LLP | Ernst & Young LLP |

Unit: '000; Currency: RMB

| Services provided by auditors | Remuneration |
|---|---|
| Annual audit for the Company | 9,578 |
| Statutory audit for subsidiaries | 9,635 |
| Total | 19,213 |

| | Firm Name | Remuneration |
|---|---|---|
| Auditors for Internal controls review | PricewaterhouseCoopers Zhong Tian LLP | 1,984 |

# INDEPENDENT AUDITOR'S REPORT

## To the shareholders of Shanghai Electric Group Company Limited

(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shanghai Electric Group Company Limited (the "Company") and its subsidiaries set out on pages 67 to 191, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Directors' Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 30 March 2016

# CONSOLIDATED INCOME STATEMENT

## *FOR THE YEAR ENDED 31 DECEMBER 2015*

| | Notes | Year ended 31 December 2015 RMB'000 | Year ended 31 December 2014 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **78,009,448** | 76,784,516 |
| Cost of sales | 8 | **(63,936,472)** | (62,418,022) |
| **Gross profit** | | **14,072,976** | 14,366,494 |
| Other income and other gains, net | 7 | **3,179,591** | 1,371,821 |
| Distribution expenses | 8 | **(2,204,892)** | (2,437,275) |
| Administrative expenses | 8 | **(9,040,930)** | (8,098,922) |
| **Operating Profit** | | **6,006,745** | 5,202,118 |
| Finance cost | 10 | **(511,688)** | (296,481) |
| Share of profits and losses accounted for using the equity method : | | | |
| Joint ventures | 20 | **15,682** | 944 |
| Associates | 21 | **433,111** | 532,073 |
| **Profit before income tax** | | **5,943,850** | 5,438,654 |
| Income tax expense | 11 | **(1,287,893)** | (895,235) |
| **Profit for the year** | | **4,655,957** | 4,543,419 |
| | | | |
| **Profit attributable to:** | | | |
| Owners of the Company | 12 | **2,082,909** | 2,510,564 |
| Non-controlling interests | | **2,573,048** | 2,032,855 |
| | | **4,655,957** | 4,543,419 |
| | | | |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| | | | |
| **Basic and diluted earnings per share** | | | |
| From profit for the year | 12 | **16.24 cents** | 19.58 cents |

The notes on pages 76 to 191 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Year ended 31 December | |
|---|---|---|
| | 2015 RMB'000 | 2014 RMB'000 |
| **Profit for the year** | 4,655,957 | 4,543,419 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss* | | |
| Change in fair value of available-for-sale financial assets | 410,637 | 593,713 |
| Cash flow hedges | (19,618) | (43,821) |
| Currency translation differences | 55,596 | (33,328) |
| Others | (367) | (644) |
| | 446,248 | 515,920 |
| *Items that will not be reclassified subsequently to profit or loss* | | |
| Remeasurements (losses)/gains of defined benefit obligations | (7,181) | 9,339 |
| **Other comprehensive income for the year, net of tax** | 439,067 | 525,259 |
| **Total comprehensive income for the year** | 5,095,024 | 5,068,678 |
| **Attributable to:** | | |
| – Owners of the Company | 2,418,705 | 2,969,200 |
| – Non-controlling interests | 2,676,319 | 2,099,478 |
| | 5,095,024 | 5,068,678 |

The notes on pages 76 to 191 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET
## *AS AT 31 DECEMBER 2015*

| | Notes | As at 31 December 2015 RMB'000 | As at 31 December 2014 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 11,999,433 | 14,066,470 |
| Investment properties | 15 | 130,217 | 137,643 |
| Prepaid land lease payments | 16 | 1,602,158 | 1,684,582 |
| Goodwill | 17 | 175,418 | 148,073 |
| Intangible assets | 18 | 840,059 | 915,289 |
| Investments in joint ventures | 20 | 2,911,948 | 3,040,806 |
| Investments in associates | 21 | 4,039,636 | 3,791,884 |
| Other investments | 23 | 1,562,172 | 1,284,617 |
| Deferred tax assets | 24 | 2,901,249 | 2,683,479 |
| Derivative financial instruments | 33 | - | - |
| Loans and lease receivables | 22 | 7,141,056 | 4,068,514 |
| Other non-current assets | | 173,539 | 497,127 |
| Total non-current assets | | 33,476,885 | 32,318,484 |
| **Current assets** | | | |
| Inventories | 26 | 21,014,486 | 24,073,027 |
| Construction contracts | 27 | 2,885,697 | 2,111,976 |
| Trade receivables | 28 | 25,522,785 | 26,055,777 |
| Loans and lease receivables | 22 | 8,209,059 | 6,859,079 |
| Discounted bills receivable | 29 | 365,953 | 185,741 |
| Bills receivable | 30 | 6,721,052 | 6,390,123 |
| Prepayments, deposits and other receivables | 31 | 10,500,814 | 10,164,719 |
| Investments | 32 | 8,072,159 | 4,780,396 |
| Derivative financial instruments | 33 | 664,805 | 624,797 |
| Due from the Central Bank* | 34 | 3,063,635 | 4,244,973 |
| Restricted deposits | 34 | 632,092 | 628,005 |
| Cash and cash equivalents | 34 | 36,552,079 | 25,113,467 |
| Assets of disposal group classified as held for sale | 25 | 4,442,156 | - |
| Total current assets | | 128,646,772 | 111,232,080 |
| **Total assets** | | 162,123,657 | 143,550,564 |

*Central Bank is the abbreviation of the People's Bank of China.

# CONSOLIDATED BALANCE SHEET (CONTINUED)

*AS AT 31 DECEMBER 2015*

| | Notes | As at 31 December 2015 RMB'000 | As at 31 December 2014 RMB'000 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Bonds | 41 | 10,792,803 | 1,993,201 |
| Interest-bearing bank and other borrowings | 39 | 122,729 | 853,644 |
| Provisions | 40 | 148,988 | 77,339 |
| Government grants | | 660,933 | 424,834 |
| Other non-current liabilities | 42 | 927,376 | 1,086,963 |
| Deferred tax liabilities | 24 | 241,880 | 391,343 |
| Total non-current liabilities | | 12,894,709 | 4,827,324 |
| **Current liabilities** | | | |
| Trade payables | 35 | 28,207,094 | 26,937,592 |
| Bills payable | 36 | 3,276,107 | 4,898,054 |
| Other payables and accruals | 37 | 51,765,382 | 47,273,941 |
| Derivative financial instruments | 33 | 25,507 | 3,819 |
| Customer deposits | 38 | 6,033,869 | 4,271,030 |
| Interest-bearing bank and other borrowings | 39 | 1,885,968 | 5,008,663 |
| Tax payable | | 1,395,196 | 1,439,514 |
| Provisions | 40 | 3,257,222 | 3,465,559 |
| Liabilities of disposal group classified as held for sale | 25 | 3,752,429 | - |
| Total current liabilities | | 99,598,774 | 93,298,172 |
| **Total liabilities** | | 112,493,483 | 98,125,496 |

# CONSOLIDATED BALANCE SHEET (CONTINUED)

*AS AT 31 DECEMBER 2015*

| | Notes | As at 31 December 2015 RMB'000 | As at 31 December 2014 RMB'000 |
|---|---|---|---|
| **Equity and liabilities (continued)** | | | |
| **Equity** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 43 | **12,824,305** | 12,823,627 |
| Reserves | 44 | **24,426,781** | 20,659,633 |
| Retained earnings | | **-** | 753,132 |
| | | **37,251,086** | 34,236,392 |
| **Non-controlling interests** | | **12,379,088** | 11,188,676 |
| **Total equity** | | **49,630,174** | 45,425,068 |
| **Total equity and liabilities** | | **162,123,657** | 143,550,564 |

The notes on pages 76 to 191 are an integral part of these consolidated financial statements.

The financial statements on pages 67 to pages 191 were approved by the Board of Directors on 30 March 2016 and were signed on its behalf.

| | |
|---|---|
| Mr. Huang Dinan | Mr. Zheng Jianhua |
| Chairman and CEO | Director and President |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2015

| | | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital RMB'000 | Capital reserve RMB'000 | Contributed surplus RMB'000 | Surplus reserves RMB'000 | Hedging revaluation reserve RMB'000 | Available-for-sale investment revaluation reserve RMB'000 | Special reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained earnings RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2015** | | 12,823,627 | 5,236,749 | (2,352,526) | 4,558,889 | 1,729 | 667,517 | 52,760 | (77,386) | 12,571,901 | 753,132 | 34,236,392 | 11,188,676 | 45,425,068 |
| Profit for the year | | - | - | - | - | - | - | - | - | 2,082,909 | - | 2,082,909 | 2,573,048 | 4,655,957 |
| **Other comprehensive income for the year:** | | | | | | | | | | | | | | |
| Changes in fair value of available-for-sale investments, net of tax | | - | - | - | - | - | 320,109 | - | - | - | - | 320,109 | 90,528 | 410,637 |
| Cash flow hedges, net of tax | | - | - | - | - | (19,618) | - | - | - | - | - | (19,618) | - | (19,618) |
| Currency translation differences | | - | - | - | - | - | - | - | 39,096 | - | - | 39,096 | 16,500 | 55,596 |
| Others | | - | (3,791) | - | - | - | - | - | - | - | - | (3,791) | (3,757) | (7,548) |
| **Total comprehensive income for the year** | | - | (3,791) | - | - | (19,618) | 320,109 | - | 39,096 | 2,082,909 | - | 2,418,705 | 2,676,319 | 5,095,024 |
| Addition of subsidiaries | | - | - | - | - | - | - | - | - | - | - | - | 147,190 | 147,190 |
| Disposal of subsidiaries | | - | 20,300 | - | - | - | - | - | 20,181 | (20,300) | - | 20,181 | 17,997 | 38,178 |
| Convertible bond - equity component | | 678 | 1,214,919 | - | - | - | - | - | - | - | - | 1,215,597 | - | 1,215,597 |
| Compensation from the ultimate holding company | | - | 192,806 | - | - | - | - | - | - | - | - | 192,806 | 211,569 | 404,375 |
| Acquisition of non-controlling interests | | - | (53,600) | - | - | - | - | - | - | - | - | (53,600) | (391,753) | (445,353) |
| Dividend paid to non-controlling interests | | - | - | - | - | - | - | - | - | - | - | - | (1,508,307) | (1,508,307) |
| Final 2014 dividend declared | 13 | - | - | - | - | - | - | - | - | - | (753,132) | (753,132) | - | (753,132) |
| Proposed final 2015 dividend | 13 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfer from retained earnings | | - | - | - | 1,022 | - | - | - | - | (1,022) | - | - | - | - |
| Others | | - | (57,886) | - | - | - | - | - | - | 32,023 | - | (25,863) | 37,397 | 11,534 |
| **At 31 December 2015** | | 12,824,305 | 6,549,497 | (2,352,526) | 4,559,911 | (17,889) | 987,626 | 52,760 | (18,109) | 14,665,511 | - | 37,251,086 | 12,379,088 | 49,630,174 |

| | | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital RMB'000 | Capital reserve RMB'000 | Contributed surplus RMB'000 | Surplus reserves RMB'000 | Hedging revaluation reserve RMB'000 | Available-for-sale investment revaluation reserve RMB'000 | Special reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained earnings RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2014** | | 12,823,627 | 5,214,447 | (2,352,526) | 4,271,319 | 45,550 | 145,709 | 52,760 | (54,255) | 11,102,039 | 957,284 | 32,205,954 | 10,502,614 | 42,708,568 |
| Profit for the year | | - | - | - | - | - | - | - | - | 2,510,564 | - | 2,510,564 | 2,032,855 | 4,543,419 |
| **Other comprehensive income for the year:** | | | | | | | | | | | | | | |
| Changes in fair value of available-for-sale investments, net of tax | | - | - | - | - | - | 521,808 | - | - | - | - | 521,808 | 71,905 | 593,713 |
| Cash flow hedges, net of tax | | - | - | - | - | (43,821) | - | - | - | - | - | (43,821) | - | (43,821) |
| Currency translation differences | | - | - | - | - | - | - | - | (23,131) | - | - | (23,131) | (10,197) | (33,328) |
| Others | | - | 3,780 | - | - | - | - | - | - | - | - | 3,780 | 4,915 | 8,695 |
| **Total comprehensive income for the year** | | - | 3,780 | - | - | (43,821) | 521,808 | - | (23,131) | 2,510,564 | - | 2,969,200 | 2,099,478 | 5,068,678 |
| Capital reduction of subsidiaries | | - | - | - | - | - | - | - | - | - | - | - | 4,125 | 4,125 |
| Addition of subsidiaries | | - | - | - | - | - | - | - | - | - | - | - | 49,250 | 49,250 |
| Disposal of subsidiaries | | - | - | - | - | - | - | - | - | - | - | - | (22,210) | (22,210) |
| Acquisition of non-controlling interests | | - | 15,766 | - | - | - | - | - | - | - | - | 15,766 | (15,766) | - |
| Dividend paid to non-controlling interests | | - | - | - | - | - | - | - | - | - | - | - | (1,428,815) | (1,428,815) |
| Final 2013 dividend declared | | - | - | - | - | - | - | - | - | - | (957,284) | (957,284) | - | (957,284) |
| Proposed final 2014 dividend | 13 | - | - | - | - | - | - | - | - | (753,132) | 753,132 | - | - | - |
| Transfer from retained earnings | | - | - | - | 287,570 | - | - | - | - | (287,570) | - | - | - | - |
| Others | | - | 2,756 | - | - | - | - | - | - | - | - | 2,756 | - | 2,756 |
| **At 31 December 2014** | | 12,823,627 | 5,236,749 | (2,352,526) | 4,558,889 | 1,729 | 667,517 | 52,760 | (77,386) | 12,571,901 | 753,132 | 34,236,392 | 11,188,676 | 45,425,068 |

The notes on pages 76 to 191 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31 DECEMBER 2015*

| | Note | Year ended 31 December 2015 RMB'000 | Year ended 31 December 2014 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 45 | 9,470,431 | 5,773,147 |
| Income tax paid | | (1,808,351) | (1,362,232) |
| Net cash generated from operating activities | | 7,662,080 | 4,410,915 |
| **Cash flows from investing activities** | | | |
| Interest received | | 1,029,215 | 855,953 |
| Finance lease income | | 440,167 | 380,659 |
| Dividends received from joint ventures | | 380 | 350 |
| Dividends received from associates | | 521,991 | 484,511 |
| Dividends received from investments | | 74,086 | 77,221 |
| Purchases of items of property, plant and equipment | | (1,147,436) | (1,710,932) |
| Purchases of investment properties | | (931) | (5,072) |
| Realised fair value gains on financial assets at fair value through profit or loss | | 125,590 | 79,326 |
| Prepaid land lease payments | | (92,182) | (55,969) |
| Proceeds from disposal of property, plant and equipment | | 364,654 | 1,203,331 |
| Disposal of subsidiaries | | (20,656) | - |
| Acquisition of subsidiaries | | 26,138 | - |
| Capital injection in joint ventures | | - | (3,076,662) |
| Capital injection in associates | | (370,466) | (49,690) |
| Decrease in non-current other investments | | 776,219 | 772,423 |
| Purchases of other intangible assets | | (66,858) | (77,411) |
| Proceeds from disposal of other intangible assets | | 18,349 | 27,605 |
| Proceeds from disposal of prepaid land lease payments | | 6,353 | 81,273 |
| Acquisition of non-controlling interests | | (445,354) | - |
| Acquisition of other non-current assets | | (46,628) | (100,519) |
| Increase in restricted deposits | | (4,087) | (13,376) |
| Decrease/(increase) in non-restricted time deposits with original maturity of over three months when acquired | | 2,721,253 | (864,206) |
| Increase in loans and lease receivables | | (4,520,347) | (2,752,038) |
| (Increase)/decrease in discounted bills receivable | | (185,149) | 363,947 |
| Decrease/(increase) in an amount due from the Central Bank | | 1,181,338 | (157,396) |
| (Increase)/decrease in repurchased assets | | (3,378,340) | 1,376,280 |
| Increase in current investments | | (33,076) | (384,186) |
| Others | | 137,052 | 121,602 |
| Net cash flows used in investing activities | | (2,888,725) | (3,422,976) |

# CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2015*

| | Year ended 31 December | |
|---|---|---|
| | 2015<br>RMB'000 | 2014<br>RMB'000 |
| **Cash flows from financing activities** | | |
| Capital injection by non-controlling interests | 132,000 | 53,375 |
| New bank and other loans raised | 3,037,061 | 4,935,649 |
| Repayments of bank and other loans | (5,515,990) | (3,042,423) |
| Bond interest paid | (96,400) | - |
| Issue of bonds | 10,091,220 | - |
| Dividends paid to non-controlling interests | (1,513,048) | (1,415,422) |
| Dividends paid to owners of the Company | (753,132) | (957,284) |
| Increase in customer deposits | 1,762,839 | 2,508,626 |
| Interest paid | (188,392) | (325,305) |
| Compensation from the ultimate holding company | 404,375 | - |
| Cash received from the ultimate holding company for the repayment of the loan of Goss International Corporation ("Goss International") | 1,402,796 | - |
| Others | 491,477 | 150,000 |
| Net cash flows generated from financing activities | 9,254,806 | 1,907,216 |
| **Net increase in cash and cash equivalents** | 14,028,161 | 2,895,155 |
| Cash and cash equivalents at beginning of year | 19,016,377 | 16,175,872 |
| Effect of foreign exchange rate changes, net | 137,296 | (54,650) |
| **Cash and cash equivalents at end of year** | 33,181,834 | 19,016,377 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash and cash equivalents as stated in the consolidated balance sheet | 36,552,079 | 25,113,467 |
| Less: non-restricted time deposits with original maturity of over three months when acquired | (3,375,837) | (6,097,090) |
| Add: cash and cash equivalents in assets of disposal group classified as held for sale | 5,592 | - |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | 33,181,834 | 19,016,377 |

The notes on pages 76 to 191 are an integral part of these consolidated financial statements.

## 1. GENERAL INFORMATION

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

During the year, the Company and its subsidiaries (together the "Group") are engaged in the following principal activities:

- design, manufacture and sale of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components, and provision of solution package for comprehensive utilisation of solid waste, sewage treatment, power generation environment protection and distributed energy systems;
- design, manufacture and sale of thermal power equipment products and corollary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products;
- design, manufacture and sale of elevators, electrical motors, machine tools, marine crankshafts and other electromechanical equipment products; and
- provision of integrated engineering services for power station projects and other industries, financial products and services, international trading services, financial lease and related consulting services and insurance brokerage services.

In the opinion of the directors, the parent company and the ultimate holding company of the Group is Shanghai Electric (Group) Corporation ("SE Corporation"), a state-owned enterprise established in the PRC.

The Company has its ordinary shares listed on both The Stock Exchange of Hong Kong Limited and The Stock Exchange of Shanghai Limited.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1.1 Basis of preparation

The consolidated financial statements of Shanghai Electric Group Company Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1.1 Basis of preparation (continued)

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The Group adopts the going concern basis in preparing its consolidated financial statements.

### 2.1.2 Changes in accounting policy and disclosures

*(a) New and amended standards adopted by the group*

The following amendments to standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans.

Amendments from annual improvements to HKFRSs – 2010 – 2012 Cycle, on HKFRS 8, 'Operating segments', HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets' and HKAS 24, 'Related party disclosures'.

Amendments from annual improvements to HKFRSs – 2011 – 2013 Cycle, on HKFRS 3, 'Business combinations', HKFRS 13, 'Fair value measurement' and HKAS 40, 'Investment property'.

The amendments are not material to the group.

*(b) New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

*(c) New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1.2 Changes in accounting policy and disclosures (continued)

*(c) New standards and interpretations not yet adopted (continued)*

HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group is assessing the impact of HKAS 15.

HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting HKFRS 15 'Revenue from contracts with customers' at the same time. The group is currently assessing the impact of HKFRS 16.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

## 2.2 SUBSIDIARIES

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;
(ii) rights arising from other contractual arrangements; and
(iii) the Group's voting rights and potential voting rights.

*(a) Business combinations*

*Business combination under common control*

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

## 2.2 SUBSIDIARIES (CONTINUED)

### *(a) Business combinations (continued)*

*Business combination under common control (continued)*

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

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

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

*Business combination not under common control*

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

## 2.2 SUBSIDIARIES (CONTINUED)

### *(a) Business combinations (continued)*

*Business combination not under common control (continued)*

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

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

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred assets, when necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

### *(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## 2.2 SUBSIDIARIES (CONTINUED)

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## 2.3 SEPARATE FINANCIAL STATEMENTS

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 2.4 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

## 2.4 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated income statement and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associates or joint ventures is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates or joint ventures and their carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated income statement.

The results of associates and joint ventures are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations.

## 2.5 FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments and some equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## 2.5 FAIR VALUE MEASUREMENT (CONTINUED)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.6 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, makes strategic decisions. The executive directors are chief decision-makers for each decision.

## 2.7 FOREIGN CURRENCY TRANSLATION

### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

## 2.7 FOREIGN CURRENCY TRANSLATION (CONTINUED)

### *(b) Transactions and balances (continued)*

All foreign exchange gains and losses are presented in the consolidated income statement within 'other gains – net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

### *(c) Group companies*

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

### *(d) Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

## 2.7 FOREIGN CURRENCY TRANSLATION (CONTINUED)

*(d) Disposal of foreign operation and partial disposal (continued)*

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

## 2.8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

| | |
|---|---|
| – Freehold Land | Not depreciated |
| – Land and buildings | 10-50 years |
| – Plant and machinery | 5-20 years |
| – Motor vehicles | 5-12 years |
| – Equipment, tools and others | 3-10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

## 2.8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Construction in progress representing property, plant and equipment under construction and installation is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains – net' in the consolidated income statement.

## 2.9 INVESTMENT PROPERTY

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The principle useful lives used for this purpose are 20 to 40 years.

## 2.10 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

### *(a) Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

## 2.10 INTANGIBLE ASSETS (CONTINUED)

### *(a) Goodwill (continued)*

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### *(b) Patents and licences*

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 40 years.

### *(c) Technology know-how*

Purchased technology know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 15 years.

### *(d) Concession intangible assets*

Concession intangible assets represent the rights to charge users of the public service that the Group obtains under the service concession arrangements. Concession intangible assets are stated at cost, that is, the fair value of the consideration received or receivable in exchange for the construction services provided under the service concession arrangements, less accumulated amortisation and any impairment losses.

Subsequent expenditures such as repairs and maintenance are charged to the consolidated income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the item, and where the cost of the item can be measured reliably, the expenditures are capitalised as an additional cost of concession intangible assets.

Amortisation of service concession arrangements is calculated to write off their costs on astraight-line basis throughout the periods for which the Group is granted to operate those concession intangible assets.

### *(e) Research and development costs*

All research costs are charged to the consolidated income statement as incurred.

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

## 2.10 INTANGIBLE ASSETS (CONTINUED)

*(e) Research and development costs (continued)*

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

## 2.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.12 NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

## 2.13 FINANCIAL ASSETS

### 2.13.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee).

Financial assets are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (Notes 2.21), including trade receivables, loans and lease receivables, bills receivable and due from Central Bank, 'cash and cash equivalents' (Note 2.22), and 'restricted deposits' in the consolidated balance sheet.

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

## 2.13 FINANCIAL ASSETS (CONTINUED)

### 2.13.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'Other gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as other gains, net.

Interest on available-for-sale securities calculated using the effective interest method is recognised in "other income" in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in "other income" in the consolidated income statement when the Group's right to receive payments is established.

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## 2.14 IMPAIRMENT OF FINANCIAL ASSETS

### *(a) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

### *(b) Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For available-for-sale debt investments, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of available-for-sale debt investments increased and the increase can be related objectively to an event occuring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

## 2.15 FINANCIAL LIABILITIES

### 2.15.1 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and financial guarantee contracts, as appropriate.

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

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

### 2.15.2 Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

*(a) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

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

*(b) Loans and borrowings*

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

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

## 2.15 FINANCIAL LIABILITIES (CONTINUED)

### 2.15.2 Subsequent measurement (continued)

*(c) Financial guarantee contracts*

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

## 2.16 DERECOGNITION OF FINANCIAL LIABILITIES

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

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

## 2.17 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contigent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 2.18 REVERSE REPURCHASE TRANSACTIONS

Assets purchased under agreements to resell at a specified future date are not recognised in the consolidated balance sheet. The corresponding cash paid, including accrued interest, is recognised in the consolidated balance sheet as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

## 2.19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

## 2.19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

*(a) Fair value hedges*

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

*(b) Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within 'other gains – net'.

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

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

## 2.19 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

*(c) Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated income statement.

Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is partially disposed of or sold.

## 2.20 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis or individual basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 2.21 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

## 2.22 CASH AND CASH EQUIVALENTS

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

## 2.23 SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 2.24 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2.25 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 2.26 BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 2.27 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

## 2.27 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### *(b) Deferred income tax*

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.28 EMPLOYEE BENEFITS

### *(a) Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### *(b) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

## 2.29 PROVISIONS

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

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

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

## 2.30 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

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

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

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

## 2.31 GOVERNMENT GRANTS

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

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

## 2.32 CONSTRUCTION CONTRACTS

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised on the percentage of completion method, by reference to the proportion of costs/hours incurred to date to the estimated total costs/hours of the relevant contracts. When the outcome of a construction contract can not be measured reliably, revenue is recognised only to the extent that the cost incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

## 2.33 CONTRACTS FOR SERVICES

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

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

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

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

## 2.34 INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

## 2.35 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

## 2.36 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

# 3. FINANCIAL RISK MANAGEMENT

## 3.1 FINANCIAL RISK FACTORS

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

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the foreign currency risks arising from the Group's operations.

The main risks arising from the Group's financial instruments are market risk and financial risk. The Group's policies for managing each of these risks are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2 to the financial statements.

## 3.1 FINANCIAL RISK FACTORS (CONTINUED)

### *(a) Market risk*

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen ("JPY"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's treasury function at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

At 31 December 2015, if RMB Yuan had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been RMB409,574,000 (2014: RMB376,247,000) higher/lower. At 31 December 2015, If RMB Yuan had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been RMB245,079,000 (2014: RMB27,974,000) higher/lower. At 31 December 2015, If RMB Yuan had weakened/strengthened by 10% against the JPY with all other variables held constant, post-tax profit for the year would have been RMB11,308,000 (2014: RMB60,779,000) higher/lower.

(ii) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments and trust product classified as investments at fair value through profit or loss and available-for-sale investments (Notes 23 and 32) as at 31 December 2015. The Group's listed investments are listed on the Shenzhen Stock Exchange ("SZSE") and the Shanghai Stock Exchange ("SHSE") and are valued at quoted market prices at the end of the reporting period.

## 3.1 FINANCIAL RISK FACTORS(CONTINUED)

### *(a) Market risk(continued)*

(ii) Equity price risk (continued)

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

| | Carrying amount<br>RMB'000 | Increase/ (decrease) in profit after tax<br>RMB'000 | Increase/ (decrease) in other comprehensive income<br>RMB'000 |
|---|---|---|---|
| 2015 | | | |
| Equity investments: | | | |
| Shenzhen – Available-for-sale | 222,906 | - | 8,359 |
| – At fair value through profit or loss | 21,873 | 820 | - |
| Shanghai – Available-for-sale | 936,201 | - | 35,108 |
| – At fair value through profit or loss | 31,279 | 1,174 | - |
| 2014 | | | |
| Equity investments: | | | |
| Shenzhen – Available-for-sale | 2,360 | - | 89 |
| Shanghai – Available-for-sale | 1,031,100 | - | 39,039 |
| – At fair value through profit or loss | 40,705 | 1,528 | - |

## 3.1 FINANCIAL RISK FACTORS(CONTINUED)

*(a) Market risk(continued)*

(iii) Interest rate risk

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

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

*Debt investments*

| | 2015 | | |
|---|---|---|---|
| | **At fair value through profit or loss** | **Held-to-maturity** | **Available-for-sale** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Within 1 year | 3,510 | - | 31,270 |
| 1 to 5 years | - | - | 371,693 |
| More than 5 years | - | - | 31,356 |
| Total | 3,510 | - | 434,319 |
| Effective interest rate (% per annum) | 0.50-1.70 | - | 5.70-7.12 |

| | 2014 | | |
|---|---|---|---|
| | **At fair value through profit or loss** | **Held-to-maturity** | **Available-for-sale** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Within 1 year | 159,104 | - | 101,783 |
| 1 to 5 years | - | 20,000 | 258,579 |
| More than 5 years | - | - | 148,371 |
| Total | 159,104 | 20,000 | 508,733 |
| Effective interest rate (% per annum) | 0.50-2.60 | 0.00 | 3.53-9.50 |

## 3.1 FINANCIAL RISK FACTORS(CONTINUED)

*(a) Market risk(continued)*

(iii) Interest rate risk (continued)

*Other financial assets*

| | 2015 | | |
|---|---|---|---|
| | Loans receivables RMB'000 | Discounted bills receivables RMB'000 | Time deposits RMB'000 |
| Within 1 year | 5,969,577 | 365,953 | 5,759,824 |
| 1 to 5 years | 965,520 | - | - |
| Total | 6,935,097 | 365,953 | 5,759,824 |
| Effective interest rate (% per annum) | 1.95-5.58 | 2.97-5.49 | 0.35-4.15 |

| | 2014 | | |
|---|---|---|---|
| | Loans receivables RMB'000 | Discounted bills receivables RMB'000 | Time deposits RMB'000 |
| Within 1 year | 5,578,479 | 185,741 | 18,293,655 |
| Effective interest rate (% per annum) | 5.04-6.30 | 4.08-5.20 | 0.35-4.75 |

## 3.1 FINANCIAL RISK FACTORS(CONTINUED)

*(a) Market risk(continued)*

(iii) interest rate risk (continued)

*Financial liabilities*

| | 2015 | |
|---|---|---|
| | Interest-bearing bank and other borrowings RMB'000 | Customer deposits* RMB'000 |
| Within 1 year | 652,695 | 6,033,869 |
| 1 to 5 years | 84,729 | - |
| Total | 737,424 | 6,033,869 |
| Effective interest rate (% per annum) | 1.80-5.30 | 0.35-3.75 |

| | 2014 | |
|---|---|---|
| | Interest-bearing bank and other borrowings RMB'000 | Customer deposits RMB'000 |
| Within 1 year | 708,537 | 4,271,030 |
| Effective interest rate (% per annum) | 2.30-3.65 | 0.50-3.75 |

*Customer deposits represent the deposits placed in the Shanghai Electric Group Finance Co., Ltd. ("Finance Company").

## 3.1 FINANCIAL RISK FACTORS(CONTINUED)

### *(a) Market risk(continued)*

(iii) interest rate risk (continued)

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

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit after tax RMB'000 | Increase/ (decrease) in other comprehensive income RMB'000 |
|---|---|---|---|
| **2015** | 15 | 27,537 | (1,235) |
| RMB | (15) | (27,537) | 1,235 |
| RMB | 15 | (146) | - |
| USD | (15) | 146 | - |
| USD | 15 | (660) | - |
| HKD | (15) | 660 | - |
| HKD | | | |
| **2014** | | | |
| RMB | 15 | 2,580 | (1,448) |
| RMB | (15) | (2,580) | 1,448 |
| USD | 15 | (138) | - |
| USD | (15) | 138 | - |

## 3.1 FINANCIAL RISK FACTORS(CONTINUED)

### *(b) Credit risk*

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make any payment of the principal or interest when due, in the case of a fixed income investment, or, in the case of an equity investment, the loss in value resulting from a corporate failure. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds issued by PRC companies and the PRC Government. The Group mitigates credit risk by utilising detailed credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counterparty exposure limits within its investment portfolio.

The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in Note 46 to the consolidated financial statements.

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group does not have a significant concentration of credit risk in relation to the trade receivables as the trade receivables due from the five largest customers accounted for only 14.9% (2014: 13.3%) of the Group's trade receivables as at 31 December 2015.

The Group performs ongoing credit evaluations of its customers' financial conditions. The allowance for doubtful debts is based upon a review of the expected collectability of all trade receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 28 to the financial statements.

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

### *(c) Liquidity risk*

Liquidity risk is the risk of not having access to sufficient funds to meet the Group's obligations as they become due. The Group seeks to manage its liquidity risk by matching the duration of its investment assets with the duration of its debts and customer deposits to the extent possible.

## 3.1 FINANCIAL RISK FACTORS (CONTINUED)

*(c) Liquidity risk (continued)*

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Trade payables | 25,481,250 | 1,350,893 | 1,374,951 | - | - | 28,207,094 |
| Bills payable | - | 1,445,977 | 1,830,130 | - | - | 3,276,107 |
| Financial liabilities included in other payables and accruals | 4,690,319 | 1,234,764 | 690,261 | - | - | 6,615,344 |
| Customer deposits | 5,322,180 | 127,246 | 614,346 | - | - | 6,063,772 |
| Interest-bearing bank and other borrowings | - | 4,010 | 1,925,768 | 138,287 | - | 2,068,065 |
| Financial liabilities included in other non-current liabilities | - | - | - | 563,175 | 750 | 563,925 |
| Bonds | - | 440,527 | 117,193 | 6,441,162 | 6,000,756 | 12,999,638 |
| Derivative financial instruments | - | - | 25,507 | - | - | 25,507 |
| | 35,493,749 | 4,603,417 | 6,578,156 | 7,142,624 | 6,001,506 | 59,819,452 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Trade payables | 23,435,705 | 2,155,007 | 1,346,880 | - | - | 26,937,592 |
| Bills payable | - | 2,049,478 | 2,848,576 | - | - | 4,898,054 |
| Financial liabilities included in other payables and accruals | 3,831,497 | 360,537 | 223,635 | - | - | 4,415,669 |
| Customer deposits | 3,897,360 | 61,948 | 359,543 | - | - | 4,318,851 |
| Interest-bearing bank and other borrowings | - | 535,945 | 4,896,329 | 865,314 | 56,145 | 6,353,733 |
| Financial liabilities included in other non-current liabilities | - | - | - | 347,945 | - | 347,945 |
| Bonds | - | 24,726 | 74,177 | 2,170,269 | - | 2,269,172 |
| Derivative financial instruments | - | - | 3,819 | - | - | 3,819 |
| | 31,164,562 | 5,187,641 | 9,752,959 | 3,383,528 | 56,145 | 49,544,835 |

## 3.2 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

The Group monitors capital using a gearing ratio, which is debt divided by total equity plus debt. Debt includes interest-bearing bank and other borrowings and bonds.

The gearing ratios as at the end of the reporting periods were as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Interest-bearing bank and other borrowings | 3,216,697 | 5,862,307 |
| Bonds | 11,192,637 | 1,993,201 |
| Debt | 14,409,334 | 7,855,508 |
| Total equity | 49,630,174 | 45,425,068 |
| Total equity and net debt | 64,039,508 | 53,280,576 |
| **Gearing ratio** | 22.5% | 14.7% |

## 3.3 FAIR VALUE ESTIMATION

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 2015<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | 2014<br>RMB'000 |
| **Financial liabilities** | | | | |
| Non-current portion of interest-bearing bank and other borrowings | 122,729 | 853,644 | 117,922 | 820,340 |
| Bonds | 11,192,637 | 1,993,201 | 12,079,006 | 2,000,000 |
| | 11,315,366 | 2,846,845 | 12,196,928 | 2,820,340 |

## 3.3 FAIR VALUE ESTIMATION (CONTINUED)

Management has assessed that the fair values of financial instruments included in current assets and liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee regularly.

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

The fair values of non-current portion of loans and lease receivables, financial assets included in other non-current assets and liabilities, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of listed equity investments and bonds are based on quoted market prices. The fair values of unlisted available-for sale equity investments have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of the reporting period.

For the fair value of the unlisted available-for-sale equity investments, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

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

As at 31 December 2015, the marked to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

## 3.3 FAIR VALUE ESTIMATION (CONTINUED)

*(a) Fair value hierarchy*

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

(i) Financial assets measured at fair value:

| | As at 31 December 2015 Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (level 1) RMB'000 | Significant observable inputs (level 2) RMB'000 | Significant unobservable inputs (level 3) RMB'000 | Total RMB'000 |
| Available-for-sale investments: | | | | |
| Equity investments | 1,159,108 | - | - | 1,159,108 |
| Debt investments | - | 434,319 | - | 434,319 |
| Investment funds | 1,817,150 | - | - | 1,817,150 |
| Investment products | - | 1,226,368 | - | 1,226,368 |
| Investments at fair value through profit or loss: | | | | |
| Equity investments | 53,152 | - | - | 53,152 |
| Debt investments | 3,510 | - | - | 3,510 |
| Investment funds | 32,867 | - | - | 32,867 |
| Derivative financial instruments | - | 664,805 | - | 664,805 |
| | 3,065,787 | 2,325,492 | - | 5,391,279 |

| | As at 31 December 2014 Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (level 1) RMB'000 | Significant observable inputs (level 2) RMB'000 | Significant unobservable inputs (level 3) RMB'000 | Total RMB'000 |
| Available-for-sale investments: | | | | |
| Equity investments | 1,033,460 | - | - | 1,033,460 |
| Debt investments | - | 508,733 | - | 508,733 |
| Investment funds | 1,735,408 | - | - | 1,735,408 |
| Investment products | - | 1,237,498 | - | 1,237,498 |
| Investments at fair value through profit or loss: | | | | |
| Equity investments | 40,705 | - | - | 40,705 |
| Debt investments | 159,105 | - | - | 159,105 |
| Investment funds | 88,125 | - | - | 88,125 |
| Derivative financial instruments | - | 624,797 | - | 624,797 |
| | 3,056,803 | 2,371,028 | - | 5,427,831 |

## 3.3 FAIR VALUE ESTIMATION (CONTINUED)

*(a) Fair value hierarchy (continued)*

(ii) Financial liabilities measured at fair values:

| | As at 31 December 2015 Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (level 1) RMB'000 | Significant observable inputs (level 2) RMB'000 | Significant unobservable inputs (level 3) RMB'000 | Total RMB'000 |
| Derivative financial instruments | - | 25,507 | - | 25,507 |

| | As at 31 December 2014 Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (level 1) RMB'000 | Significant observable inputs (level 2) RMB'000 | Significant unobservable inputs (level 3) RMB'000 | Total RMB'000 |
| Derivative financial instruments | - | 3,819 | - | 3,819 |

(iii) Liabilities for which fair value are disclosed:

| | As at 31 December 2015 Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (level 1) RMB'000 | Significant observable inputs (level 2) RMB'000 | Significant unobservable inputs (level 3) RMB'000 | Total RMB'000 |
| Non-current portion of interesting-bearing bank and other borrowings | - | 122,729 | - | 122,729 |
| Bonds | 11,192,637 | - | - | 11,192,637 |

| | As at 31 December 2014 Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (level 1) RMB'000 | Significant observable inputs (level 2) RMB'000 | Significant unobservable inputs (level 3) RMB'000 | Total RMB'000 |
| Non-current portion of interesting-bearing bank and other borrowings | - | 853,644 | - | 853,644 |
| Bonds | 1,993,201 | - | - | 1,993,201 |

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

## 4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### *(a) Estimated impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was RMB175,418,000 (2014:RMB148,073,000). More details are given in Note 17 to the financial statements.

### *(b) Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

### *(c) Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2015 was RMB2,901,249,000 (2014: RMB2,683,479,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2015 was RMB3,219,894,000 (2014: RMB6,924,104,000). Further details are contained in Note 24 to the financial statements.

### *(d) Write-down of inventories to net realisable value*

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

## 4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

### *(e) Impairment of trade receivables*

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management's judgement and estimates. Where the actual outcome of expectation in future is different from the original estimate, the differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which the estimate has been changed.

### *(f) Impairment of available-for-sale financial assets*

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated income statement. More details are given in Note 23 and 32 to the financial statements.

### *(g) Provisions*

The Group makes provisions for product warranty, onerous contracts, staff early retirement and late delivery. Management estimates the related provisions based on contract terms, available knowledge and past experience. The Group recognises provisions to the extent that it has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and that the amount can be reliably estimated. The carrying amount of the provisions at 31 December 2015 was RMB3,406,210,000 (2014: RMB3,542,898,000). More details are given in Note 40 to the financial statements.

### *(h) Useful lives of property, plant and equipment*

The property, plant and equipment are depreciated on the straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related depreciation charges for its items of property, plant and equipment. The estimation is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions with consideration of expected technology renovation. Depreciation charges may be adjusted if there are significant changes in prior assumptions and estimation.

### *(i) Defined benefit plan*

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

## 4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

*(j) Revenue recognition*

The Group uses the percentage of completion method to account for its contract revenue from construction contracts when the outcome of the construction contracts could be estimated reliably. The stage of completion is measured in accordance with the accounting policy for construction contracts stated in Note 2. Significant estimation is required in determining the stage of completion, the extent of the contract costs incurred the estimated total contract revenue and contract cost and the recoverability of the contract costs. In making the estimation, the Group evaluates by relying on past experience and the work of the project management team. Revenue from construction contracts is disclosed in Note 6 to the financial statements.

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting period. Changes in estimates of contract revenue or contract costs, or changes in the estimated outcome of a contract could impact the amounts of revenue and expenses recognised in the consolidated income statement in the period in which the change is made and in subsequent periods. Such an impact could potentially be significant.

*(k) Fair value of derivatives and other financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

*(l) Income tax*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Certain subsidiaries were subject to a corporate income tax rate of 15% as they have been assessed as "High-New Technology Enterprises" under the Corporate Income Tax Law as at 31 December 2015. Those subsidiaries provided income tax and recognised the deferred tax assets and liabilities at tax rate of 15%.

## 4.2 JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Operating lease commitments – Group as lessor*

According to the lease contracts of the Group's investment property portfolio, the Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

## 4.2 JUDGEMENTS (CONTINUED)

*Consolidation of entities in which the Group holds less than a majority of voting rights*

The Group considers that it controls Shanghai Mechanical& Electrical Industry Co., Ltd.("SMEI") even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of SMEI with a 47.68% equity interest. The remaining 52.32% equity shares in SMEI are widely held by many other shareholders, none of whose equity shares is significant individually (since the date of the acquisition of the equity interest in SMEI by the Group). Since the date of acquisition, there has been no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

## 5. SEGMENT INFORMATION

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

The details of operating segments are as follows:

(a) the new energy and environmental protection segment is engaged in the design, manufacture and sale of nuclear power, nuclear island equipment products, wind power equipment products, environmental protection equipment products and heavy machinery including large forging components, and in the provision of solution package for comprehensive utilisation of solid waste, sewage treatment, power generation environment protection and distributed energy systems;

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

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

(d) the modern services segment is principally engaged in the provision of integrated engineering services for power station projects and other industries, financial products and services, international trading services, financial lease and related consulting services and insurance brokerage services; and

(e) the "others" segment includes components such as the central research institute.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that finance costs, share of profits and losses of joint ventures or associates.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to non-related parties at the then prevailing market prices.

## 5. SEGMENT INFORMATION (CONTINUED)

| Year ended 31 December 2015 | New energy and environmental protection RMB'000 | High efficiency and clean energy RMB'000 | Industrial equipment RMB'000 | Modern services RMB'000 | Others RMB'000 | Corporate and other unallocated amounts RMB'000 | Inter segmented eliminations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | |
| Sales to external customers | 11,036,175 | 26,070,251 | 23,204,021 | 17,156,736 | 534,324 | 7,941 | - | 78,009,448 |
| Intersegment sales | 1,055,686 | 2,626,323 | 740,750 | 667,328 | 45,455 | 45,641 | (5,181,183) | - |
| Total revenue | 12,091,861 | 28,696,574 | 23,944,771 | 17,824,064 | 579,779 | 53,582 | (5,181,183) | 78,009,448 |
| **Operating profit/(loss)** | 53,491 | 1,233,909 | 2,492,948 | 1,603,863 | (128,479) | 321,464 | 429,549 | 6,006,745 |
| Finance costs | | | | | | | | (511,688) |
| Share of profits and losses of: | | | | | | | | |
| Joint ventures | | | | | | | | 15,682 |
| Associates | | | | | | | | 433,111 |
| Profit before tax | | | | | | | | 5,943,850 |
| Income tax expense | | | | | | | | (1,287,893) |
| Profit for the year | | | | | | | | 4,655,957 |
| **Assets and liabilities** | | | | | | | | |
| Segment assets | 22,272,585 | 60,635,496 | 34,978,079 | 81,109,469 | 1,328,199 | 12,765,735 | (50,965,906) | 162,123,657 |
| Segment liabilities | 13,769,970 | 41,523,711 | 23,162,870 | 68,113,190 | 220,622 | 7,785,639 | (42,082,519) | 112,493,483 |
| **Other segment information:** | | | | | | | | |
| Capital expenditure | 453,801 | 349,934 | 451,094 | 48,606 | 42,117 | 20,337 | (594) | 1,365,295 |
| Depreciation and amortization | 408,811 | 667,316 | 400,720 | 16,880 | 69,099 | 60,805 | - | 1,623,631 |
| Other non-cash expenses | 816,111 | (23,099) | 98,463 | 221 | - | - | - | 891,696 |

## 5. SEGMENT INFORMATION (CONTINUED)

| Year ended 31 December 2014 | New energy and environmental protection RMB'000 | High efficiency and clean energy RMB'000 | Industrial equipment RMB'000 | Modern services RMB'000 | Others RMB'000 | Corporate and other unallocated amounts RMB'000 | Inter segmented eliminations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | |
| Sales to external customers | 8,316,098 | 25,233,711 | 25,178,733 | 17,603,248 | 391,601 | 61,125 | - | 76,784,516 |
| Intersegment sales | 1,456,929 | 3,459,994 | 840,333 | 536,628 | 34,110 | - | (6,327,994) | - |
| Total revenue | 9,773,027 | 28,693,705 | 26,019,066 | 18,139,876 | 425,711 | 61,125 | (6,327,994) | 76,784,516 |
| **Operating profit/(loss)** | (205,337) | 1,324,094 | 1,749,398 | 2,030,720 | (157,701) | 520,093 | (59,149) | 5,202,118 |
| Finance costs | | | | | | | | (296,481) |
| Share of profits and losses of: | | | | | | | | |
| Joint ventures | | | | | | | | 944 |
| Associates | | | | | | | | 532,073 |
| Profit before tax | | | | | | | | 5,438,654 |
| Income tax expense | | | | | | | | (895,235) |
| Profit for the year | | | | | | | | 4,543,419 |
| **Assets and liabilities** | | | | | | | | |
| Segment assets | 19,471,790 | 56,084,102 | 35,171,156 | 59,528,414 | 695,663 | 13,817,967 | (41,218,528) | 143,550,564 |
| Segment liabilities | 12,621,386 | 39,579,362 | 23,146,062 | 49,131,994 | 166,879 | 7,239,378 | (33,759,565) | 98,125,496 |
| **Other segment information:** | | | | | | | | |
| Capital expenditure | 473,137 | 624,392 | 731,733 | 42,531 | 81,945 | 8,279 | (8,876) | 1,953,141 |
| Depreciation and amortization | 397,739 | 874,621 | 478,439 | 21,262 | 37,010 | 69,665 | (1,254) | 1,877,482 |
| Other non-cash expenses | 576,903 | 286,655 | 140,916 | 515,349 | 1,978 | - | - | 1,521,801 |

## 5. SEGMENT INFORMATION(CONTINUED)

*(1) Geographical information*

(a) Revenue from external customers

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Mainland China | 69,250,152 | 66,230,233 |
| Other countries/jurisdictions | 8,759,296 | 10,554,283 |
| | 78,009,448 | 76,784,516 |

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

(b) Non-current assets

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Mainland China | 18,570,811 | 20,958,761 |
| Other countries/jurisdictions | 3,554,613 | 3,316,194 |
| | 22,125,424 | 24,274,955 |

The above non-current asset information is based on the locations of the assets and excludes financial instruments and deferred tax assets.

## 6. REVENUE

Revenue includes turnover and other revenue that arise from the ordinary course of business of the Group. The Group's turnover, which arises from the principal activities of the Group, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, an appropriate proportion of contract revenue of construction contracts and the value of services rendered.

An analysis of revenue is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Turnover | | |
| Sale of goods | 61,961,992 | 58,624,858 |
| Construction contracts | 8,766,544 | 10,903,219 |
| Rendering of services | 4,850,449 | 4,997,084 |
| | 75,578,985 | 74,525,161 |
| Other revenue | | |
| Sales of raw materials, spare parts and semi-finished goods | 732,691 | 652,382 |
| Finance lease income | 440,167 | 380,659 |
| Rental income under operating leases | 72,500 | 106,742 |
| Finance Company: | | |
| Interest income on loans receivable and discounted bills receivable | 405,799 | 403,339 |
| Interest income from banks and other financial institutions | 412,162 | 356,778 |
| Others | 367,144 | 359,455 |
| | 2,430,463 | 2,259,355 |
| | 78,009,448 | 76,784,516 |

## 7. OTHER INCOME AND OTHER GAINS, NET

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Other income** | | |
| Interest income on bank balances and time deposits | 268,325 | 264,333 |
| Interest income on debt investments | 31,140 | 31,840 |
| Dividend income from equity investments and investment funds | 74,086 | 77,221 |
| Subsidy income | 392,654 | 707,621 |
| | 766,205 | 1,081,015 |
| **Other gains, net** | | |
| Gains on disposal of property, plant and equipment | 1,033 | 135,888 |
| Losses on disposal of other intangible assets | (141) | (74) |
| Gains on disposal of land use rights | - | 20,858 |
| Gains on disposal of subsidiaries (Note 50) | 926,018 | - |
| Investments at fair value through profit or loss: | | |
| Unrealised fair value gains-net | (58,378) | 58,631 |
| Realised fair value gains-net | 125,590 | 79,326 |
| Derivative financial instruments -transactions not qualifying as hedges: | | |
| Unrealised fair value gains-net | 2,237 | 68,095 |
| Realised gains on available-for-sale investments (transfer from equity) | 634,679 | 206,158 |
| Exchange gains/(losses)-net | 91,580 | (8,683) |
| Debt restructure gains-net | 10,939 | 206 |
| Reversal of/(provided for) the provision for the construction | 187,856 | (459,450) |
| Income received from the governments for the relocation compensation (a) | 431,717 | 41,080 |
| Others | 60,256 | 148,771 |
| | 2,413,386 | 290,806 |
| **Total other income and other gains, net** | 3,179,591 | 1,371,821 |

## 7. OTHER INCOME AND OTHER GAINS, NET(CONTINUED)

(a) Relocation compensation income primarily represented accumulated relocation compensation of RMB617,514,000 received by the Company's subsidiary, Goss Graphic Systems (China) Co., Ltd. ("Goss China") from the government due to municipal planning. Goss China completed its relocations in 2015. Such compensation, net of net book value of the original land and plant of RMB5,834,000, which is related to relocation amounting to RMB431,717,000, was recognised as other gains, net in the consolidated income statement, and the compensation related to the newly purchased land and buildings amounting to RMB179,963,000 was recognised as government grants in the consolidated balance sheet.

## 8. EXPENSE BY NATURE

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Raw materials and consumables used | 34,757,914 | 32,811,198 |
| Cost of purchased product components and services | 26,365,244 | 27,281,417 |
| Employee benefit expenses (Note 9) | 6,599,293 | 6,821,346 |
| Asset impairment charge | 2,284,142 | 1,001,028 |
| Depreciation and amortisation (Note 14, Note 15, Note 16 and Note 18) | 1,623,631 | 1,877,482 |
| Commissions and brokerage fees | 708,079 | 926,613 |
| Office expenses | 589,627 | 438,985 |
| Utility expenses | 414,882 | 422,200 |
| Transportation cost and packaging fees | 370,702 | 264,624 |
| Technique commission expenses | 233,511 | 14,850 |
| Operating lease expenses | 193,822 | 208,711 |
| Interest paid for customer deposits | 101,089 | 51,594 |
| Remuneration of auditors | 22,000 | 19,656 |
| Other expenses | 918,358 | 814,515 |
| **Total cost of sales, distribution expenses and administrative expenses** | 75,182,294 | 72,954,219 |

## 9. EMPLOYEE BENEFIT EXPENSE

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Staff costs (including directors' and supervisors' remuneration): | | |
| Wages and salaries | 4,794,525 | 5,059,138 |
| Defined contribution pension scheme | 685,976 | 671,838 |
| Supplementary pension | 128,146 | 173,152 |
| Early retirement benefits and staff severance costs | 208,262 | 210,761 |
| Medical benefits costs | 392,323 | 417,503 |
| Housing fund | 382,589 | 283,418 |
| Cash housing subsidy costs | 7,472 | 5,536 |
| | 6,599,293 | 6,821,346 |

(i) Defined contribution pension schemes

All of the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government regulated pension scheme mainly at 21.0% (2014: 21.0%) of the employees' basic salaries. This defined contribution pension scheme continued to be available to the Group's employees for the year. The related pension costs are expensed as incurred.

Certain of the Group's employees who retired before 1 January 2000 are entitled to supplementary pension benefits (the "Supplementary Pension Benefits") provided by certain subsidiaries of the Group in addition to the benefits under the government-regulated pension scheme described above. The Supplementary Pension Benefits are calculated based on factors including the number of years of service and salary level on the date of retirement of the respective employee. The Company and SE Corporation have agreed that the costs of the Supplementary Pension Benefits are borne by SE Corporation from 1 March 2004 onwards, i.e., the incorporation date of the Company. Starting from that date, the related Supplementary Pension Benefits are paid by SE Corporation through the Company.

(ii) Early retirement benefits and staff severance

The Group implements an early retirement plan for certain employees in addition to the benefits under the government regulated defined contribution pension scheme and the Supplementary Pension Benefits described above. The benefits of the early retirement plan are calculated based on factors including the remaining number of years from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the employee.

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

## 9. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

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

Based on the directors' estimation, the Group's obligations to the early retirement benefits and staff severance until the qualified employees are eligible for the government-regulated pension scheme amounted to approximately RMB167,318,000 as at 31 December 2015 (2014: RMB141,430,000). The costs of the early retirement benefits were recognised in the period when employees opted for early retirement. The provision for early retirement benefits was not assessed by any independent actuary. Where the effect of discounting is material, the amount recognised for the early retirement benefits is the present value of reporting period date of the future cash flows expected to be required to settle the obligation. The staff severance costs are recognised when the Group has a formal plan for the termination or an offer to voluntary redundancy and is without realistic possibility of withdrawal.

(iii) Medical benefits

The Group contributes on a monthly basis to defined contribution medical benefit plans organised by the PRC government. The PRC government undertakes to assume the medical benefit obligations for all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for medical benefits and supplemental medical benefits for their qualified employees under these plans.

(iv) Five highest paid employees

No director (2014: nil) was included in the five highest paid employees during the year. Details of the remuneration for the year of the five (2014: five) highest paid employees who are neither a director nor a supervisor of the Company, are as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Salaries, bonuses and allowances received from the Group | 12,338 | 21,237 |
| Pension scheme contributed by the Group | - | - |
| Other social benefit schemes contributed by the Group | - | - |
| | 12,338 | 21,237 |

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

| | Number of employees | |
|---|---|---|
| | 2015 | 2014 |
| HK$1,500,001 - HK$2,000,000 | 2 | 1 |
| HK$2,000,001 - HK$2,500,000 | 0 | 2 |
| HK$2,500,001 - HK$5,000,000 | 2 | 1 |
| HK$5,000,001 - HK$10,000,000 | 1 | 1 |
| | 5 | 5 |

## 10. FINANCE COSTS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Interest expense: | | |
| -Bank borrowings | 158,679 | 197,789 |
| -Bonds | 353,009 | 98,692 |
| | 511,688 | 296,481 |

## 11. INCOME TAX EXPENSE

With the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") effective on 1 January 2008, the Company and all of its subsidiaries that operate in Mainland China were subject to the statutory corporate income tax rate of 25% for the year ended 31 December 2015 (2014: 25%) under the income tax rules and regulations of the PRC, except that:

Certain subsidiaries were subject to a corporate income tax rate of 15% as they have been assessed as "High-New Technology Enterprises" under the Corporate Income Tax Law as at 31 December 2015. Those subsidiaries provided income tax and recognised the deferred tax assets and liabilities at tax rate of 15%.

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Current tax | | |
| Charge for the year | 1,727,573 | 1,880,242 |
| Overprovision in prior years | (73,446) | (74,427) |
| Deferred tax (Note 24) | (366,234) | (910,580) |
| Total tax charge for the year | 1,287,893 | 895,235 |

## 11. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries/jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

| | 2015 RMB'000 | % | 2014 RMB'000 | % |
|---|---|---|---|---|
| **Profit before tax** | 5,943,850 | | 5,438,654 | |
| Tax at the statutory tax rate | 1,485,963 | 25.0 | 1,359,664 | 25.0 |
| Lower tax rates for specific districts or concessions | (311,041) | (5.2) | (328,479) | (6.0) |
| Overprovision in prior years | (73,446) | (1.2) | (74,427) | (1.4) |
| Profits and losses attributable to joint ventures and associates | (112,198) | (1.9) | (132,879) | (2.4) |
| Income not subject to tax | (243,601) | (4.1) | (21,609) | (0.4) |
| Expenses not deductible for tax | 53,183 | 0.9 | 71,944 | 1.3 |
| Tax incentives on eligible expenditures | (41,044) | (0.7) | (66,905) | (1.2) |
| Utilization of previously unrecognised tax losses and deductible temporary differences | (79,742) | (1.3) | (106,547) | (2.0) |
| Tax losses and deductible temporary differences for which no deferred tax assets was recognised | 524,862 | 8.8 | 195,218 | 3.6 |
| Provision of deferred tax assets | 75,000 | 1.3 | - | - |
| Others | 9,957 | 0.2 | (745) | - |
| | 1,287,893 | 21.8 | 895,235 | 16.5 |

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares of 12,823,739,660 (2014: 12,823,626,660) in issue during the year.

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

The calculation of basic earnings per share is based on:

| | **2015** | **2014** |
|---|---|---|
| **Earnings** | | |
| Profit attributable to owners of the Company used in the basic earnings per share calculation (RMB'000) | **2,082,909** | 2,510,564 |
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **12,823,739,660** | 12,823,626,660 |

## 13. DIVIDENDS

| | **2015 RMB'000** | **2014 RMB'000** |
|---|---|---|
| Proposed final dividend paid of RMB (2014: RMB5.873 cents) per ordinary share | - | 753,132 |
| | - | 753,132 |

On 5 May 2015, the Company's 2014 annual general meeting approved the proposed final 2014 dividend of an aggregate amount of RMB753,132,000, based on total of 12,823,626,660 shares and a cash dividend of RMB5.873 cents per share (tax inclusive). The dividend was distributed on 2 July 2015.

As considered and approved by the Board and the general meeting of the Company, the Company proposed to commence the assets swap and assets acquisition by issuance of the shares as well as supporting fund raising with Shanghai Electric (Group) Corporation (the "Transactions"). On 26 January 2016, China Securities Regulatory Commission officially accepted the application of assets acquisition by issuance of the shares as well as supporting fund raising by the Company. In order to ensure the successful implementation of the Transactions and also for the long-term consideration for the Company's development and shareholders' benefit, along with Article 17 of the Measures for the Administration of Securities Issuance and Underwriting (《證券發行與承銷管理辦法》), which provides that, "If any profit distribution scheme or the scheme of capitalization from capital public reserve has not been submitted to the general meeting for shareholders' voting, or such scheme has not been implemented upon voting and approval by shareholders at the general meeting, the listed company shall issue the securities after such scheme is implemented. Before relevant plan is implemented, the lead underwriter shall not underwrite the securities issued by the listed company", the Company, after due discussion, decided not to proceed with any profit distribution nor appropriation from capital reserves to share capital for the year 2015.

Pursuant to the Corporate Income Tax Law and relevant regulations, a Chinese resident enterprise shall withhold income tax at 10% when dividends are distributed to overseas non-resident enterprise H-share shareholders for year 2008 and the years thereafter.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Equipment, tools and others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At cost:** | | | | | | |
| At 1 January 2015 | 7,893,546 | 14,233,080 | 577,148 | 1,290,577 | 1,159,757 | 25,154,108 |
| Additions | 483 | 288,513 | 16,622 | 47,746 | 826,614 | 1,179,978 |
| Additions due to acquisition of subsidiaries | 24,537 | 23,463 | 3,220 | 3,079 | 88 | 54,387 |
| Disposals | (289,588) | (600,386) | (50,001) | (60,714) | (9,338) | (1,010,027) |
| Deduction due to disposal of subsidiaries | (200,319) | (265,223) | (18,920) | (198,218) | (2,259) | (684,939) |
| Transfers from construction in progress | 255,395 | 537,885 | 12,774 | 70,031 | (876,085) | - |
| Transferred to other intangible assets (Notes 16&18) | - | - | - | - | (34,907) | (34,907) |
| Transferred to disposal group classified as held for sale | (71,441) | (1,922,441) | (33,426) | (119,274) | (83,106) | (2,229,688) |
| At 31 December 2015 | 7,612,613 | 12,294,891 | 507,417 | 1,033,227 | 980,764 | 22,428,912 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2015 | 2,774,260 | 7,015,375 | 403,285 | 894,096 | 622 | 11,087,638 |
| Depreciation for the year (Note 8) | 272,438 | 920,620 | 46,454 | 129,425 | - | 1,368,937 |
| Impairment for the year | - | 120,510 | - | - | - | 120,510 |
| Deduction of impairment due to the disposals | (110) | (612) | - | - | - | (722) |
| Deduction of depreciation due to the disposals | (215,921) | (341,482) | (44,870) | (43,411) | - | (645,684) |
| Additions due to acquisition of subsidiaries | - | - | - | - | - | - |
| Deduction in depreciation due to disposal of subsidiaries | (102,899) | (174,086) | (15,791) | (155,538) | - | (448,314) |
| Deduction in impairment due to disposal of subsidiaries | (4,177) | - | - | - | - | (4,177) |
| Transferred to disposal group classified as held for sale | (18,708) | (913,851) | (23,764) | (92,386) | - | (1,048,709) |
| At 31 December 2015 | 2,704,883 | 6,626,474 | 365,314 | 732,186 | 622 | 10,429,479 |
| **Net carrying amount:** | | | | | | |
| At 31 December 2015 | 4,907,730 | 5,668,417 | 142,103 | 301,041 | 980,142 | 11,999,433 |

## 14. PROPERTY, PLANT AND EQUIPMENT(CONTINUED)

| | Land and buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Equipment, tools and others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At cost:** | | | | | | |
| At 1 January 2014 | 8,510,881 | 13,715,609 | 577,214 | 1,217,112 | 1,218,572 | 25,239,388 |
| Additions | 266,475 | 362,845 | 21,622 | 59,668 | 1,000,322 | 1,710,932 |
| Disposals | (1,220,591) | (326,806) | (31,661) | (73,428) | (37,108) | (1,689,594) |
| Transfers from construction in progress | 336,781 | 481,432 | 9,973 | 87,225 | (915,411) | - |
| Transferred to other intangible assets (Notes 16&18) | - | - | - | - | (106,618) | (106,618) |
| At 31 December 2014 | 7,893,546 | 14,233,080 | 577,148 | 1,290,577 | 1,159,757 | 25,154,108 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2014 | 2,711,632 | 6,185,800 | 387,913 | 826,705 | 622 | 10,112,672 |
| Depreciation for the year (Note 8) | 350,501 | 1,078,244 | 43,622 | 124,750 | - | 1,597,117 |
| Deduction of impairment due to the disposals | (535) | (2,931) | - | - | - | (3,466) |
| Deduction of depreciation due to the disposals | (287,338) | (245,738) | (28,250) | (57,359) | - | (618,685) |
| At 31 December 2014 | 2,774,260 | 7,015,375 | 403,285 | 894,096 | 622 | 11,087,638 |
| **Net carrying amount:** | | | | | | |
| At 31 December 2014 | 5,119,286 | 7,217,705 | 173,863 | 396,481 | 1,159,135 | 14,066,470 |

As at 31 December 2015, certain buildings and machinery with net carrying amount of RMB340,585,000 (31 December 2014: RMB1,338,267,000) were pledged to secure certain bank loans granted to the Group (Note 39).

As at 31 December 2015, the Group has not obtained the real estate certificates for buildings with a net carrying amount of RMB289,116,000.

Lease rentals expense relating to the lease of machinery and property amounting to RMB193,822,000 (2014: RMB208,711,000) are included in the consolidated income statement (Note 8).

During the year, no borrowing costs (2014: nil) was capitalized by the Group.

## 15. INVESTMENT PROPERTIES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 225,207 | 220,135 |
| Addition | 931 | 5,072 |
| At 31 December | 226,138 | 225,207 |
| **Accumulated depreciation:** | | |
| At 1 January | 87,564 | 79,934 |
| Depreciation for the year (Note 8) | 8,357 | 7,630 |
| At 31 December | 95,921 | 87,564 |
| **Net carrying amount:** | | |
| At 31 December | 130,217 | 137,643 |

As at 31 December 2015, the Group had no unprovided contractual obligations for future repairs and maintance (2014: Nil). The Group's investment properties are situated in Mainland China and are held under the following lease terms:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Medium term leases (less than 50 years but not less than 10 years) | 106,121 | 111,264 |
| Short term leases (less than 10 years) | 24,096 | 26,379 |
| | 130,217 | 137,643 |

## 16. PREPAID LAND LEASE PAYMENTS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 2,069,015 | 1,972,613 |
| Transferred from construction in progress (Note 14) | - | 105,954 |
| Additions | 92,182 | 55,969 |
| Disposals | (7,825) | (65,521) |
| Disposal of subsidiaries | (100,084) | - |
| Transferred to disposal group classified as held for sale | (35,093) | - |
| At 31 December | 2,018,195 | 2,069,015 |
| **Accumulated amotisation** | | |
| At 1 January | 384,433 | 347,784 |
| Amortisation for the year | 50,814 | 41,755 |
| Disposals | (1,472) | - |
| Deduction due to disposal of subsidiaries | (13,878) | (5,106) |
| Transferred to disposal group classified as held for sale | (3,860) | - |
| At 31 December | 416,037 | 384,433 |
| **Net carrying amount:** | | |
| At 31 December | 1,602,158 | 1,684,582 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **At cost, held in Mainland China** | | |
| Leases of over 50 years | 13,467 | 80,923 |
| Leases of between 10 to 50 years | 2,004,728 | 1,988,092 |
| | 2,018,195 | 2,069,015 |

As at 31 December 2015, no land use right of the Group was pledged to secure certain bank loans granted to the Group (2014: Nil).

## 17. GOODWILL

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 365,616 | 365,616 |
| Increase during the year (Note 50) | 27,345 | - |
| Transfers out due to disposal of subsidiaries | (198,097) | - |
| At 31 December | 194,864 | 365,616 |
| | | |
| **Impairment:** | | |
| At 1 January | 217,543 | 217,543 |
| Transfers out due to disposal of subsidiaries | (198,097) | - |
| At 31 December | 19,446 | 217,543 |
| | | |
| **Net carrying amount:** | | |
| At 31 December | 175,418 | 148,073 |

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing:

| Cash-generating unit | Segment | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| Printing and packing machinery | Industrial equipment | 12,483 | 12,483 |
| Transmission and distribution equipment | High efficiency and clean energy | 135,590 | 135,590 |
| Wind power equipment and others | New energy and environmental protection | 27,345 | - |
| | | 175,418 | 148,073 |

The recoverable amounts of the above cash-generating units have been determined based on their value in use. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

## 17. GOODWILL (CONTINUED)

The key assumptions in 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Growth rate used to extrapolate cash flows beyond five-year period | 3% | 3% |
| Gross margin | 19%-24% | 19%-24% |
| Discount rate applied | 10%-14% | 12%-14% |

Assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2015 and 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins - The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rate - The discount rate used reflects specific risks relating to the relevant units.

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

## 18. INTANGIBLE ASSETS

| | Patents and licences RMB'000 | Technology know-how RMB'000 | Concession RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At cost:** | | | | | |
| At 1 January 2015 | 798,026 | 530,827 | 413,001 | 263,965 | 2,005,819 |
| Additions | 2,363 | 1,899 | 39 | 62,557 | 66,858 |
| Additions due to acquisition of subsidiaries | 30,327 | - | - | 5,003 | 35,330 |
| Transferred from construction in progress (Note 14) | - | - | 33,922 | 985 | 34,907 |
| Disposals | - | - | - | (25,558) | (25,558) |
| Deduction due to disposal of subsidiaries | (107,495) | - | - | (8,225) | (115,720) |
| Transferred to disposal group classified as held for sale | - | - | - | (11,689) | (11,689) |
| At 31 December 2015 | 723,221 | 532,726 | 446,962 | 287,038 | 1,989,947 |
| **Accumulated amortisation and impairment:** | | | | | |
| At 1 January 2015 | 493,287 | 378,502 | 102,050 | 116,691 | 1,090,530 |
| Amortisation for the year (Note 8) | 35,313 | 47,107 | 18,074 | 28,655 | 129,149 |
| Additions due to acquisition of subsidiaries | - | - | - | - | - |
| Disposals | - | - | - | (7,068) | (7,068) |
| Deduction due to disposal of subsidiaries | (45,095) | - | - | (7,641) | (52,736) |
| Transferred to disposal group classified as held for sale | - | - | - | (9,987) | (9,987) |
| At 31 December 2015 | 483,505 | 425,609 | 120,124 | 120,650 | 1,149,888 |
| **Net carrying amount:** | | | | | |
| At 31 December 2015 | 239,716 | 107,117 | 326,838 | 166,388 | 840,059 |

## 18. INTANGIBLE ASSETS(CONTINUED)

| | Patents and licences RMB'000 | Technology know-how RMB'000 | Concession RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At cost:** | | | | | |
| At 1 January 2014 | 763,387 | 544,096 | 420,467 | 231,774 | 1,959,724 |
| Additions | 37,366 | 587 | 618 | 38,840 | 77,411 |
| Transferred from construction in progress (Note 14) | - | - | - | 664 | 664 |
| Disposals | (2,727) | (13,856) | (8,084) | (7,313) | (31,980) |
| At 31 December 2014 | 798,026 | 530,827 | 413,001 | 263,965 | 2,005,819 |
| **Accumulated amortisation and impairment:** | | | | | |
| At 1 January 2014 | 452,106 | 348,063 | 85,206 | 83,850 | 969,225 |
| Amortisation for the year (Note 8) | 42,896 | 32,337 | 17,018 | 33,355 | 125,606 |
| Disposals | (1,715) | (1,898) | (174) | (514) | (4,301) |
| At 31 December 2014 | 493,287 | 378,502 | 102,050 | 116,691 | 1,090,530 |
| **Net carrying amount:** | | | | | |
| At 31 December 2014 | 304,739 | 152,325 | 310,951 | 147,274 | 915,289 |

Amortisation of RMB73,238,000 (2014: RMB79,539,000) and RMB55,911,000 (2014: RMB46,067,000) is included in the 'administrative expense' and 'cost of sales', respectively, in the consolidated income statement.

## 19. SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2015 are as follows:

| Company name | Place of incorporation/ registration and operation | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai Electric Group Shanghai Electric Machinery Co., Ltd.<br>上海電氣集團上海電機廠有限公司 | PRC | RMB 241,818 | 100% | - | Production and sale of turbine generators and spare parts |
| Shanghai Boiler Works, Ltd.<br>上海鍋爐廠有限公司 | PRC | RMB 207,483 | 100% | - | Sale of power station boilers, industry boilers and power station equipment |
| Shanghai Electric Power Generation Equipment Co., Ltd. #<br>上海電氣電站設備有限公司# | PRC | USD 264,792 | - | 60% | Design, manufacture and sale of power generation equipment and auxiliary products |
| Shanghai Electric Wind Power Equipment Co., Ltd.<br>上海電氣風電設備有限公司 | PRC | RMB 2,147,421 | 96.77% | - | Production and sale of wind power equipment, spare parts and provision of after-sales service |
| SEC Power Generation Environment Protection Engineering Co., Ltd.<br>上海電氣電站環保工程有限公司 | PRC | RMB 50,000 | 95% | - | Design, manufacture and sale of desulphurisation equipment |
| Shanghai Heavy Machinery Plant Co., Ltd.<br>上海重型機器廠有限公司 | PRC | RMB 1,973,210 | 100% | - | Sale of metallurgy materials, spare parts, power station equipment and anti-pressure containers |
| Shanghai Electric Nuclear Power Equipment Co., Ltd.<br>上海電氣核電設備有限公司 | PRC | RMB 2,092,000 | 100% | - | Production and sale of nuclear power equipment spare parts and provision of after-sales service |
| Shanghai No.1 Machine Tool Works Co., Ltd.<br>上海第一機床廠有限公司 | PRC | RMB 620,000 | 100% | - | Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipment |
| Shanghai Electric Group Finance Co., Ltd.<br>上海電氣集團財務有限責任公司 | PRC | RMB 1,500,000 | 73.38% | 15.63% | Provision of financial services |

## 19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2015 are as follows (continued):

| Company name | Place of incorporation/ registration and operation | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai Electric International Economic and trade Ltd. 上海電氣國際經濟貿易有限公司 | PRC | RMB 350,000 | 100% | - | Import and export of products |
| Shanghai Mechanical & Electrical Industry Co., Ltd. ^ 上海機電股份有限公司^ | PRC | RMB 1,022,740 | 47.37% | 0.31% | Production and sale of elevators, printing and packing machinery, artificial boards, air-conditioners, welding materials and engineering machinery |
| Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd. * 上海電氣集團通用冷凍空調設備有限公司* | PRC | RMB 351,340 | - | 47.68% | Production and sale of refrigeration and air-conditioning equipment provision of technical services and equipment construction services |
| Shanghai Electric Group Printing & Packaging Machinery Co., Ltd. * 上海電氣集團印刷包裝機械有限公司* | PRC | RMB 632,863 | - | 47.68% | Production and sale of printing and packaging equipment, spare parts and raw materials |
| Shanghai Mitsubishi Elevator Co., Ltd. # * 上海三菱電梯有限公司# * | PRC | USD 155,269 | - | 24.79% | Manufacture and sale of elevators, escalators, electronic ramps, building automation, management and safety systems and provision of related services |
| Goss Graphic Systems (China) Co., Ltd 高斯圖文印刷系統(中國)有限公司 | PRC | RMB 132,680 | - | 47.68% | Research, production and sale of printing machine |
| Shanghai Electric Hydraulics Pneumatics Co., Ltd. * 上海電氣液壓氣動有限公司* | PRC | RMB 251,243 | - | 47.68% | Sale of pressurised pumps and related equipment |
| Shanghai Machine Tool Works Ltd. 上海機床廠有限公司 | PRC | RMB 698,733 | 100% | - | Production and sale of machinery and spare parts |
| Shanghai Electric Transmission and Distribution Group Co., Ltd.& 上海電氣輸配電集團有限公司& | PRC | RMB 2,000,000 | 50% | - | Production and sale of power transmission, distribution and controlling equipment |

## 19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2015 are as follows (continued):

| Company name | Place of incorporation/ registration and operation | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai Electric Wind Energy Co., Ltd. 上海電氣風能有限公司 | PRC | RMB 844,196 | 100% | - | Design, research and development and sales wind power equipment and spare parts |
| Shanghai Electric Leasing Co., Ltd. 上海電氣租賃有限公司 | PRC | RMB 500,000 | 100% | - | Provision of finance leases |
| Shanghai Electric Newage Co., Ltd. 上海電氣新時代有限公司 | HK | RMB 50,000 | 100% | - | Investment and financing business |
| Shanghai Electric Hong Kong Co., Ltd. 上海電氣香港有限公司 | HK | RMB 547,674 | 99.35% | 0.65% | Sales of machinery and electronic products and related services business, import and export trade business, trade business, investment business |
| Shanghai Electric Wind Energy Equipment Co., Ltd. 上海電氣風能裝備有限公司 | PRC | RMB 493,730 | 100% | - | Design and production of fan equipment |

# Sino-foreign equity joint ventures

^ SMEI is 47.68% owned by the Company and is accounted for as a subsidiary by virtue of the Company's control over it. Details of the disclosure are included in Note 4.

* The Company consolidated the results of these entities because the Company's subsidiaries control these entities.

& Pursuant to the agreement, the Company is entitled to a contractual right to acquire an additional 1% equity from the counterparty at the Company's discretion. Taking into account the potential voting right, Shanghai Electric Transmission and Distribution Group Co., Ltd. ("SETD") has been included in the consolidation scope of the Group's consolidated financial statements.

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

## 19. SUBSIDIARIES (CONTINUED)

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| SMEI | 52.32% | 52.61% |
| SETD | 50% | 50% |

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Profit for the year allocated to non-controlling interests: | | |
| SMEI | 1,483,119 | 946,871 |
| SETD | 184,124 | 230,191 |
| Dividends paid to non-controlling interests of: | | |
| SMEI | 871,007 | 821,896 |
| SETD | 83,554 | 91,589 |
| Accumulated balances of non-controlling interests at the reporting dates: | | |
| SMEI | 6,633,249 | 5,659,068 |
| SETD | 1,996,421 | 1,898,007 |

## 19. SUBSIDIARIES (CONTINUED)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company elimination:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **SMEI** | | |
| Revenue | 19,295,535 | 20,778,933 |
| Total expenses | (16,495,159) | (18,979,141) |
| Profit for the year | 2,800,376 | 1,799,792 |
| Total comprehensive income | 2,805,995 | 1,812,470 |
| Current assets | 25,158,703 | 24,651,133 |
| Non-current assets | 4,694,031 | 5,117,962 |
| Current liabilities | 19,009,814 | 18,970,967 |
| Non-current liabilities | 356,434 | 2,186,223 |
| Net cash flows from operating activities | 1,338,775 | 2,011,963 |
| Net cash flows (used in)/from investing activities | (59,676) | 10,238 |
| Net cash flows used in financing activities | (814,202) | (1,073,855) |
| Effect of changes in exchange rate on cash | 406 | (15,696) |
| Net increase in cash and cash equivalents | 465,303 | 932,650 |

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **SETD** | | |
| Revenue | 9,084,479 | 8,895,237 |
| Total expenses | (8,716,232) | (8,434,856) |
| Profit for the year | 368,247 | 460,381 |
| Total comprehensive income for the year | 367,324 | 460,142 |
| Current assets | 6,180,078 | 6,258,653 |
| Non-current assets | 1,351,114 | 1,110,647 |
| Current liabilities | 4,079,274 | 4,125,951 |
| Non-current liabilities | 73,298 | 76,925 |
| Net cash flows from operating activities | 539,729 | 173,312 |
| Net cash flows (used in)/from investing activities | (336,680) | 50,220 |
| Net cash flows used in financing activities | (245,132) | (51,937) |
| Effect of changes in exchange rate on cash | (273) | (35) |
| Net (decrease)/increase in cash and cash equivalents | (42,356) | 171,560 |

## 20. INVESTMENTS IN JOINT VENTURES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| At 31 December | 2,911,948 | 3,040,806 |

Set out below is the joint venture of the Group as at 31 December 2015, which, in the opinion of the directors, are material to the Group. The joint venture listed below has share capital consisting of solely of ordinary shares, which is held directly by the Group.

| Company name | Place of incorporation/ registration and operation | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Ansaldo Energia S.p.A ("AEN") | Italy | EUR100,000 | 40% | - | Provide service in respect of power plants equipment and related parts and manufacturing business of gas turbines |

On 8 May 2014, Shanghai Electric Hong Kong Co., Ltd. ("Shanghai Electric Hong Kong"), a wholly-owned subsidiary of the Company entered into a share purchase agreement with Fondo Strategico Italiano S.p.A.("FSI") to acquire 40% equity interest of AEN with a cash consideration of EUR400,000,000 (the "Transaction"). The Transaction was completed on 4 December 2014. Upon the completion of the Transaction, Shanghai Electric Hong Kong became a 40% equity interest shareholder of AEN.

According to the article of association, the Group jointly controls the operation of AEN with FSI and the investment of AEN is stated as a joint venture in the consolidated financial statements.

AEN is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

In addition, the functional currency of AEN is Euro while the presentation currency of the Group is RMB. The investment in AEN is exposed to the foreign exchange risk. In order to mitigate the foreign exchange risk, the Group uses EUR400,000,000 of short-term borrowing and EUR400,000,000 of bond as hedging instrument, for the period from 1 January 2015 to 31 May 2015 and the period from 1 June 2015 to 31 December 2015, respectively. Formal document had been made to describe the above hedging relations between hedging instrument and hedged item, as well as risk management objectives and hedging strategies. Meanwhile, The Group performed validity tests and the result showed the above hedging was highly effective this year. Therefore, the RMB144,160,000 of net decline in investment to AEN was hedged by exchange gains on the EUR400,000,000 of short-term borrowing and bond and the net amount has been recognised in the consolidated other comprehensive income.

# 20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

## Summarised financial information for joint venture

Set out below are the summarised financial information for AEN which are accounted for using the equity method.

### Summarised consolidated balance sheet

| | 31 December 2015 RMB'000 |
|---|---|
| **Current** | |
| Assets | 6,068,113 |
| Liabilities | (7,456,339) |
| **Non-current** | |
| Assets | 10,780,701 |
| Liabilities | (5,731,637) |
| **Net assets** | 3,660,838 |

### Summarised consolidated statement of comprehensive income

| | 2015 RMB'000 |
|---|---|
| Revenue | 7,470,362 |
| **Profit or loss before tax** | 55,244 |
| Income tax expense | 15,424 |
| **Post-tax profit** | 70,668 |
| **Other comprehensive income** | (182,363) |
| **Total comprehensive income** | (111,695) |
| **Dividends received from joint venture** | - |

The information above reflects the amounts presented in the financial statements of the joint ventures for the year ended 31 December 2015, adjusted for differences in accounting policies between the Group and the joint ventures, and not SEG's share of those amounts.

## 20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

### Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

| Summarised financial information | 2015<br>RMB'000 |
|---|---|
| **Opening net assets at acquisition day** | 3,772,533 |
| Profit for the period | 70,668 |
| Other comprehensive income | (182,363) |
| **Closing net assets** | 3,660,838 |
| Interest in Joint Venture @40% | 1,464,335 |
| Goodwill | 1,402,012 |
| **Carrying value** | 2,866,347 |

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Share of the joint ventures' profit for the year | (12,585) | 944 |
| Share of the joint ventures' other comprehensive income | - | - |
| Share of the joint ventures' total comprehensive income | (12,585) | 944 |
| Aggregate carrying amount of the Group's investments in the joint ventures (excluding impairment) | 45,601 | 58,566 |

## 21. INVESTMENTS IN ASSOCIATES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Investments, at cost: | | |
| Share of net assets | 4,039,636 | 3,791,884 |
| Goodwill on acquisition | - | - |
| Impairment | - | - |
| | 4,039,636 | 3,791,884 |
| Share of associates' results in the consolidated income statement | 433,111 | 532,073 |

## 21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Set out below are the associates of the Group as at 31 December 2015, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

| Company name | Place of incorporation/ registration and operation | Registered capital (in'000) | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Shanghai Rail Traffic Equipment Development Co., Ltd.<br>上海軌道交通設備發展有限公司 | PRC | RMB 676,041 | 34.21% | - | Production, sale, maintenance and technology development of city rail-traffic equipment and provision of consultancy services |
| Siemens Gas Turbine Parts Co., Ltd. #<br>上海西門子燃氣輪機部件有限公司# | PRC | EUR 32,000 | 49% | - | Production and sale of combustion chambers and burners |
| Siemens Power Equipment Packages Co., Ltd. #<br>上海西門子電站成套設備有限公司# | PRC | RMB 20,000 | 35% | - | System integration of fossil power plant equipment, import and export of fossil power plant equipment and relevant technical consultation |
| Schneider Shanghai Power Distribution Electrical Apparatus Co., Ltd. #<br>上海施耐德配電電器有限公司# | PRC | USD 11,000 | 20% | - | Production and sale of low voltage air breakers and low voltage containers |
| Schneider Shanghai Industrial Control Co., Ltd. #<br>上海施耐德工業控制有限公司# | PRC | USD 14,560 | 20% | - | Production and sale of circuit breakers, thermal overload relays, contactors and industrial control components |
| Siemens Shanghai Switchgear Ltd. #<br>上海西門子開關有限公司# | PRC | EUR 15,300 | 45% | - | Design, manufacture and sale of switchgears and related products |
| MWB (Shanghai) Co., Ltd. #<br>上海MWB互感器有限公司# | PRC | USD 18,344 | - | 35% | Production and sale of mutual inductors |
| Trench High Voltage Products Co., Ltd. , Shenyang #<br>傳奇電氣(瀋陽)有限公司# | PRC | RMB 112,634 | 35% | - | Production and sale of bushings and instrument transformers |
| Siemens Shanghai High Voltage Switchgear Co., Ltd. #<br>上海西門子高壓開關有限公司# | PRC | USD 13,100 | 49% | - | Production and sale of gas insulated switchgears |
| SEC Alstom (Shanghai Baoshan) Transformers Co., Ltd. #<br>上海電氣阿爾斯通寶山變壓器有限公司# | PRC | USD 50,180 | 50% | - | Production and sale of oil-immersed power transformers |
| SEC Alstom (Wuhan) Transformers Co., Ltd. #<br>上海電氣阿爾斯通武漢變壓器有限公司# | PRC | EUR 20,000 | 25% | 25% | Production and sale of oil-immersed power transformers |

## 21. INVESTMENTS IN ASSOCIATES (CONTINUED)

| Company name | Place of incorporation/ registration and operation | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Yileng Carrier Air Conditioning Equipment Co., Ltd. # * 上海一冷開利空調設備有限公司#* | PRC | RMB 372,343 | - | 14.21% | Production and sale of centralised air-conditioning systems |
| Shanghai Marathon-Gexin Electric Co., Ltd. # * 上海馬拉松革新電氣有限公司#* | PRC | USD 8,000 | - | 21.31% | Production, repair and sale of electric machines and machine sets |
| Mitsubishi Electric Shanghai Mechanical &Electrical Elevator Co., Ltd. # * 三菱電機上海機電電梯有限公司#* | PRC | USD 53,000 | - | 18.94% | Research and development, manufacture and sale of major components of elevators, escalators and automatic sidewalks |
| Shanghai Arnaiz Special Yantian Coating Machinery Co., Ltd.# * 上海阿耐斯特岩田塗裝機械有限公司#* | PRC | JPY 329,412 | - | 18.94% | Design, manufacture and sale of, compression mechanical, spraying mechanical, spraying equipment, hydraulic equipment |
| Chengdu Ri Yong-JEA Gate Electric Co., Ltd. * 成都日用友捷汽車電氣有限公司* | PRC | RMB 20,000 | - | 9.47% | Design, manufacture and sale of auto radiator fans, blowers and micromotors |
| Shanghai Nabtesco Hydraulic Co., Ltd. # * 上海納博特斯克液壓有限公司#* | PRC | USD 14,500 | - | 14.20% | Production and sale of hydraulic travelling motors and swing motors |
| Shanghai Ri Yong-JEA Gate Electric Co., Ltd. # * 上海日用-友捷汽車電氣有限公司#* | PRC | USD 17,000 | - | 18.94% | Design,manufacture and sale of auto radiator fans, blowers and micromotors |
| Shanghai Faiverley Transport Co., Ltd. # * 上海法維萊交通車輛設備有限公司#* | PRC | DEM 10,500 | - | 23.20% | Production and sale of key systems for modern railway vehicles and locomotives |
| Sauer Shanghai Hydrostatic Transmission Co., Ltd. # * 上海薩澳液壓傳動有限公司#* | PRC | USD 18,000 | - | 18.94% | Production and sale of hydraulic piston pumps and motors |
| Shanghai Jintai Engineering Machinery Co., Ltd. * ("Shanghai Jintai") 上海金泰工程機械有限公司* | PRC | RMB 832,239 | - | 23.20% | Manufacturing and operation of engineering machinery |

# Sino-foreign equity joint ventures

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

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

## 21. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

### Summarised financial information for associates

Set out below are the summarised financial information for five significant associates including Shanghai Jintai Engineering Machinery Co., Ltd. ("Shanghai Jintai"),Yileng Carrier Air Conditioning Equipment Co., Ltd. ("Yileng Carrier"), Mitsubishi Electric Shanghai Mechanical &Electrical Elevator Co., Ltd. ("Mitsubishi Electric"), Shanghai Ri Yong-JEA Gate Electric Co., Ltd. ("Shanghai Ri Yong-JEA") and Shanghai Rail Traffic Equipment Development Co., Ltd. ("Shanghai Rail") which are accounted for using the equity method.

### Summarised balance sheet and statement of comprehensive income

| | Shanghai Jintai 2015 RMB'000 | Yileng Carrier 2015 RMB'000 | Mitsubishi Electric 2015 RMB'000 | Shanghai Ri Yong-JEA 2015 RMB'000 | Shanghai Rail 2015 RMB'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Assets | 616,844 | 1,835,466 | 1,143,484 | 708,003 | 1,795,850 |
| Liabilities | (219,058) | (803,438) | (786,435) | (251,705) | (1,009,292) |
| **Non-current** | | | | | |
| Assets | 696,476 | 303,652 | 602,344 | 230,780 | 452,107 |
| Liabilities | (30,265) | - | (10,345) | (16,108) | (4,262) |
| **Net assets** | 1,063,997 | 1,335,680 | 949,048 | 670,970 | 1,234,403 |
| Revenue | 559,702 | 2,850,729 | 2,719,744 | 1,522,494 | 540,488 |
| **Profit or loss from continuing operations** | 50,005 | 604,316 | 131,020 | 186,440 | 37,275 |
| **Post-tax profit from continuing operations** | 43,781 | 454,788 | 113,001 | 161,745 | 29,670 |
| **Other comprehensive income** | - | - | - | - | - |
| **Total comprehensive income** | 43,781 | 454,788 | 113,001 | 161,745 | 29,670 |
| **Dividends received from associates** | 26,120 | 186,856 | - | - | - |

The information above reflects the amounts presented in the financial statements of the associates (and not SEG's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

## 21. INVESTMENTS IN ASSOCIATES (CONTINUED)

### Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates

| | Shanghai Jintai 2015 RMB'000 | Yileng Carrier 2015 RMB'000 | Mitsubishi Electric 2015 RMB'000 | Shanghai Ri Yong-JEA 2015 RMB'000 | Shanghai Rail 2015 RMB'000 |
|---|---|---|---|---|---|
| Opening net asset 1 January | 980,676 | 1,466,030 | 854,155 | 487,305 | 1,039,303 |
| Profit for the period | (9,347) | (130,350) | 94,893 | 156,668 | 33,176 |
| Other comprehensive income | - | - | - | - | - |
| **Closing net assets** | 971,329 | 1,335,680 | 949,048 | 643,973 | 1,072,479 |
| Share of associates | 49% | 30% | 40% | 40% | 34% |
| Interest in associates | 475,951 | 400,704 | 379,619 | 257,589 | 366,895 |
| Goodwill | - | - | - | - | - |
| **Carrying value** | 475,951 | 400,704 | 379,619 | 257,589 | 366,895 |

## 22. LOANS AND LEASE RECEIVABLES

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross RMB'000 | Provision RMB'000 | Net RMB'000 | Gross RMB'000 | Provision RMB'000 | Net RMB'000 |
| Loans to the ultimate holding company | 5,086,077 | (127,152) | 4,958,925 | 4,895,017 | (122,375) | 4,772,642 |
| Loans to SEC group companies* | 1,406,020 | (35,151) | 1,370,869 | 531,500 | (13,288) | 518,212 |
| Loans to associates | 70,000 | (1,750) | 68,250 | 50,000 | (1,250) | 48,750 |
| Loans to other related parties | - | - | - | 25,000 | (625) | 24,375 |
| Loans to a third party | 373,000 | (9,324) | 363,676 | 220,000 | (5,500) | 214,500 |
| | 6,935,097 | (173,377) | 6,761,720 | 5,721,517 | (143,038) | 5,578,479 |
| Lease receivables | 10,040,981 | | | 6,591,514 | | |
| Less: unearned finance income | (1,142,778) | | | (1,034,016) | | |
| Net lease receivables | 8,898,203 | (309,808) | 8,588,395 | 5,557,498 | (208,384) | 5,349,114 |
| | 15,833,300 | (483,185) | 15,350,115 | 11,279,015 | (351,422) | 10,927,593 |
| Portion classified as current assets | 8,576,041 | (366,982) | 8,209,059 | 7,106,180 | (247,101) | 6,859,079 |
| Non-current portion | 7,257,259 | (116,203) | 7,141,056 | 4,172,835 | (104,321) | 4,068,514 |

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

In September 2015, SE Corporation provided the financial guarantee to a long-term loan of Euro100,000,000 with the term of 56 months and annual interest rate of 1.95%, by Finance Company to Shanghai Electric Group Hong Kong Co., Ltd.

Loans to a third party is the borrowings of RMB256,000,000 with the term of 3 years and annual interest rate of 4.37%, to SDIC Xinji Energy Power Lixin Co., Ltd. by Fiannce Company.

The Group provides finance lease services to customers who purchase equipment from the Group or other vendors through Shanghai Electric Leasing Co., Ltd. The tenure of finance lease contracts entered between the Group and lessees range from two to five years. At the end of the lease term, the lessee has an option to purchase the leased assets at a nominal price, then ownership of the leased assets will be transferred to the lessee.

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Impairment of loans receivable RMB'000 | Impairment of lease receivables RMB'000 | Impairment of loans receivable RMB'000 | Impairment of lease receivables RMB'000 |
| At 1 January | 143,038 | 208,384 | 45,810 | 175,370 |
| Impairment losses recognised (Note 8) | 30,339 | 101,424 | 97,228 | 33,014 |
| At 31 December | 173,377 | 309,808 | 143,038 | 208,384 |

## 22. LOANS AND LEASE RECEIVABLE (CONTINUED)

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

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Credit loans receivable | 5,412,077 | 5,165,017 |
| Guaranteed loans receivable | 1,406,020 | 556,500 |
| Secured loans | 117,000 | - |
| | 6,935,097 | 5,721,517 |

As at 31 December 2015, none (2014: nil) of the Group's loans receivable was past due. The annual interest rates of loans provided to related parties range from 1.95% to 5.58% (2014: 5.04% to 6.00%).

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Lease receivables RMB'000 | Net lease receivables RMB'000 | Lease receivables RMB'000 | Net lease receivables RMB'000 |
| Within 1 year | 4,839,242 | 4,220,360 | 3,219,800 | 2,515,514 |
| Over 1 year but within 5 years | 5,168,453 | 4,348,020 | 3,368,947 | 2,832,697 |
| Over 5 years | 33,286 | 20,015 | 2,767 | 903 |
| | 10,040,981 | 8,588,395 | 6,591,514 | 5,349,114 |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Lease receivables RMB'000 | Net lease receivables RMB'000 | Lease receivables RMB'000 | Net lease receivables RMB'000 |
| Within 1 year | 3,130,691 | 2,388,722 | 2,041,877 | 1,494,722 |
| Over 1 year but within 5 years | 6,740,157 | 6,034,239 | 3,984,960 | 3,334,268 |
| Over 5 years | 170,133 | 165,434 | 564,677 | 520,124 |
| | 10,040,981 | 8,588,395 | 6,591,514 | 5,349,114 |

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

## 23. OTHER INVESTMENTS (NON-CURRENT)

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Equity investments: | | |
| - Available-for-sale (unlisted), at cost | 325,525 | 37,986 |
| - Impairment | (9,507) | (9,507) |
| | 316,018 | 28,479 |
| - Available-for-sale (listed), at fair value | 843,105 | 829,188 |
| | 1,159,123 | 857,667 |
| Debt investments: | | |
| - Available-for-sale (unlisted), at fair value | 344,261 | 324,670 |
| - Available-for-sale (listed), at fair value | 58,788 | 82,280 |
| - Others (unlisted), at amortised cost | - | 20,000 |
| | 403,049 | 426,950 |
| | 1,562,172 | 1,284,617 |

As at 31 December 2015, no listed available-for-sale equity investments were restricted for trading over certain periods (31 December 2014: Nil).

During the year, the increase in fair value of the Group's non-current available-for-sale investments recognised in other comprehensive income amounted to RMB65,246,000 (2014: decrease in fair value of RMB533,051,000). In addition, upon the disposal of certain non-current available-for-sale investments during the year, a cumulative gain of RMB22,132,000 (2014: RMB90,646,000) was transferred from equity and recognised in the consolidated income statement for the year 2015.

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

As at 31 December 2015, certain unlisted available-for-sale equity investments with a carrying amount of RMB316,018,000 (2014: RMB28,479,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 24. DEFERRED TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Deferred tax assets: | | |
| – Deferred tax asset to be recovered after more than 12 months | 2,110,324 | 1,933,154 |
| – Deferred tax asset to be recovered within 12 months | 1,037,019 | 831,065 |
| | 3,147,343 | 2,764,219 |
| Deferred tax liabilities: | | |
| – Deferred tax liability to be recovered after more than 12 months | (143,065) | (144,287) |
| – Deferred tax liability to be recovered within 12 months | (344,909) | (327,796) |
| | (487,974) | (472,083) |

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

### Deferred tax assets

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Losses available for offsetting against future taxable profits<br>RMB'000 | Impairment of assets and provisions<br>RMB'000 | Unrealised loss on investments<br>RMB'000 | Accrued expenses<br>RMB'000 | Unrealised profit<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
| As at 1 January 2015 | 112,844 | 1,841,936 | 529 | 656,966 | 66,801 | 85,143 | 2,764,219 |
| Deferred tax credited /(charged) to the consolidated income statement during the year (Note 11) | (74,612) | 186,443 | (961) | 199,538 | (2,035) | 24,813 | 333,186 |
| Deferred tax charged to equity during the year | - | - | 6,539 | - | - | - | 6,539 |
| Effect of acquisition of subsidiaries | - | 58,791 | - | - | - | - | 58,791 |
| Effect of disposal of subsidiaries | (7,676) | (2,162) | - | - | - | (5,554) | (15,392) |
| Gross deferred tax assets at 31 December 2015 | 30,556 | 2,085,008 | 6,107 | 856,504 | 64,766 | 104,402 | 3,147,343 |
| Offset against deferred tax liabilities* | | | | | | | (246,094) |
| Net deferred tax assets at 31 December 2015 | | | | | | | 2,901,249 |

# 24. DEFERRED TAX (CONTINUED)

## Deferred tax liabilities

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Revaluation of properties RMB'000 | Fair value adjustment arising from acquisition of subsidiaries RMB'000 | Unrealised gain on investments RMB'000 | Unrealised profit RMB'000 | Others RMB'000 | Total RMB'000 |
| As at 1 January 2015 | (144,287) | (75,844) | (168,950) | - | (83,002) | (472,083) |
| Deferred tax credited to the consolidated income statement during the year (Note 11) | 1,222 | 20,404 | 1,547 | - | 9,875 | 33,048 |
| Deferred tax credited to equity during the year | - | - | (48,939) | - | - | (48,939) |
| Gross deferred tax liabilities at 31 December 2015 | (143,065) | (55,440) | (216,342) | - | (73,127) | (487,974) |
| Offset against deferred tax assets* | | | | | | 246,094 |
| Net deferred tax liabilitites at 31 December 2015 | | | | | | (241,880) |

## Deferred tax assets

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Losses available for offsetting against future taxable profits RMB'000 | Impairment of assets and provisions RMB'000 | Unrealised loss on investments RMB'000 | Accrued expenses RMB'000 | Unrealised profit RMB'000 | Others RMB'000 | Total RMB'000 |
| As at 1 January 2014 | 118,626 | 1,375,801 | 5,094 | 543,367 | 76,392 | 54,622 | 2,173,902 |
| Deferred tax credited /(charged) to the consolidated income statement during the year (Note 11) | (5,782) | 466,135 | (19,748) | 113,599 | (9,591) | 30,521 | 575,134 |
| Deferred tax charged to equity during the year | - | - | 15,183 | - | - | - | 15,183 |
| Gross deferred tax assets at 31 December 2014 | 112,844 | 1,841,936 | 529 | 656,966 | 66,801 | 85,143 | 2,764,219 |
| Offset against deferred tax liabilities* | | | | | | | (80,740) |
| Net deferred tax assets at 31 December 2014 | | | | | | | 2,683,479 |

## 24. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Revaluation of properties RMB'000 | Fair value adjustment arising from acquisition of subsidiaries RMB'000 | Unrealised gain on investments RMB'000 | Unrealised profit RMB'000 | Others RMB'000 | Total RMB'000 |
| As at 1 January 2014 | (151,168) | (78,430) | (60,290) | (284,687) | (94,074) | (668,649) |
| Deferred tax credited to the consolidated income statement during the year (Note 11) | 6,881 | 2,586 | 30,220 | 284,687 | 11,072 | 335,446 |
| Deferred tax credited to equity during the year | - | - | (138,880) | - | - | (138,880) |
| Gross deferred tax liabilities at 31 December 2014 | (144,287) | (75,844) | (168,950) | - | (83,002) | (472,083) |
| Offset against deferred tax assets* | | | | | | 80,740 |
| Net deferred tax liabilitites at 31 December 2014 | | | | | | (391,343) |

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

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

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Tax losses | **916,258** | 3,023,318 |
| Deductible temporary differences | **2,303,636** | 3,900,786 |
| | **3,219,894** | 6,924,104 |

Deferred tax assets for the tax losses and deductible temporary differences arising from these subsidiaries with operating losses have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Unrecognised deferred tax assets due from the annual deductible loss:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| 2015 | - | 157,825 |
| 2016 | **103,580** | 153,778 |
| 2017 | **247,049** | 247,492 |
| 2018 | **186,043** | 1,023,511 |
| 2019 | **215,965** | 1,008,181 |
| 2020 and after | **1,550,999** | 1,309,999 |
| | **2,303,636** | 3,900,786 |

## 25. NON-CURRENT ASSETS HELD FOR SALE

After approved by board of directors, on 2 December 2015, the Company proposed to conduct an assets swap for its 100% equity interests in Shanghai Heavy Machinery Plant Co., Ltd. ("SHMP"), with the equivalent parts of 100% equity interests in Shanghai Electric Industrial Co., Ltd., 100% equity interests in Shanghai Blower Works Co., Ltd., 61% equity interests in Shanghai Denso Fuel Injection Co., Ltd., 14.79% equity interests in Shanghai Rail Traffic Equipment Development Co., Ltd held by SE Corporation. The completion date for the transaction is expected by 2016. The assets and liabilities of the above mentioned subsidiary that will be transferred complies with the conditions of held for sale and have been present on current assets and current liabilities of balance sheet.

(a) Assets of disposal group classified as held for sale

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Property, plant and equipment | 1,180,980 | - |
| Goodwill | - | - |
| Prepaid land lease payments | 31,233 | - |
| Other intangible assets | 1,702 | - |
| Inventory | 1,337,038 | - |
| Other current assets | 1,891,203 | - |
| Total | 4,442,156 | - |

(b) Liabilities of disposal group classified as held for sale

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Loans | 1,208,000 | - |
| Trade and other payables | 2,388,522 | - |
| Other current liabilities | 108,332 | - |
| Provisions | 47,575 | - |
| Total | 3,752,429 | - |

## 26. INVENTORIES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Raw materials | 4,055,593 | 5,035,963 |
| Work in progress | 10,500,165 | 12,059,650 |
| Finished goods | 8,004,363 | 8,722,471 |
| | 22,560,121 | 25,818,084 |
| Less: provision for impairment | (1,545,635) | (1,745,057) |
| | 21,014,486 | 24,073,027 |

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB34,757,914,000 (2014: RMB32,811,198,000), which included inventory net write-down of RMB1,001,502,000 (2014: RMB814,675,000).

## 27. CONSTRUCTION CONTRACTS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less losses | 33,290,187 | 14,576,840 |
| Less: progress billings | (30,164,777) | (12,464,864) |
| provision for impairment | (239,713) | - |
| Gross amount due from contract customers | 2,885,697 | 2,111,976 |

As at 31 December 2015, advances received from customers for contract work included in the Group's and the Company's balances of other payables and accruals amounted to approximately RMB2,229,936,000(2014: RMB3,637,465,000) and RMB853,233,000(2014: RMB2,859,907,000), respectively.

## 28. TRADE RECEIVABLES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Trade receivables | 30,177,865 | 30,506,336 |
| Less: provision for impairment | (4,655,080) | (4,450,559) |
| | 25,522,785 | 26,055,777 |

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

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

As part of its normal business, the Group entered into an arrangement (the "Arrangement 2") to transfer certain trade receivables to banks. Under the Arrangement 2, the Group may be required to reimburse the banks for losses if any customers default. The Group is exposed to default risks of the customers after the transfer andF accordingly, it continued to recognise the full carrying amount of these trade receivables and treat the transactions as borrowings. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. All the trade receivables transferred under the Arrangement has been settled as of 31 December 2015 (2014: RMB508,094,000)(Note 39).

## 28. TRADE RECEIVABLES (CONTINUED)

The ageing analysis, based on the due date, of the trade receivables, net of the provision for impairment, as at balance sheet dates is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Not due | 17,338,753 | 17,730,784 |
| Within 3 months past due | 3,453,257 | 3,443,210 |
| Over 3 months but within 6 months past due | 1,572,659 | 1,318,811 |
| Over 6 months but within 1 year past due | 1,267,232 | 1,662,242 |
| Over 1 year but within 2 years past due | 1,264,697 | 1,297,115 |
| Over 2 years but within 3 years past due | 504,811 | 515,059 |
| Over 3 years past due | 121,376 | 88,556 |
| | 25,522,785 | 26,055,777 |

The aging analysis, based on the invoice date, of the trade receivables, net of the provision for impairment, as at balance sheet dates is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within 3 months | 14,294,227 | 14,782,676 |
| Over 3 months but within 6 months | 2,295,734 | 1,989,406 |
| Over 6 months but within 1 year | 2,739,082 | 2,570,297 |
| Over 1 year but within 2 years | 3,536,419 | 3,796,175 |
| Over 2 years but within 3 years | 1,589,873 | 1,605,358 |
| Over 3 years | 1,067,450 | 1,311,865 |
| | 25,522,785 | 26,055,777 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| At 1 January | 4,450,559 | 4,349,682 |
| Impairment losses charged (Note 8) | 1,785,990 | 600,412 |
| Disposal of subsidiaries | (35,043) | - |
| Transfer to assets of disposal group classified as held for sale | (528,633) | - |
| Amount written off as uncollectible | (13,977) | (14,633) |
| Impairment losses reversed (Note 8) | (1,003,816) | (484,902) |
| At 31 December | 4,655,080 | 4,450,559 |

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated income statement (Note 8).

## 28. TRADE RECEIVABLES (CONTINUED)

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | 14,122,846 | 15,134,737 |
| Less than 3 months past due | 3,106,448 | 2,970,570 |
| 3 to 6 months past due | 944,157 | 640,671 |
| Over 6 months past due | 507,225 | 672,958 |
| | 18,680,676 | 19,418,936 |

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

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

The amounts due from related parties included in trade receivables are analysed as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| The ultimate holding company | 73,451 | 53,307 |
| Associates | 18,075 | 24,760 |
| SEC group companies | 87,852 | 76,049 |
| Other related companies | 97,145 | 281,239 |
| | 276,523 | 435,355 |

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

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| EUR | 204,264 | 206,960 |
| USD | 3,849,354 | 3,374,396 |

## 29. DISCOUNTED BILLS RECEIVABLE

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within 3 months | 331,503 | 131,423 |
| Over 3 months but within 6 months | 44,150 | 59,081 |
| | 375,653 | 190,504 |
| Less: Provision for discounted bills receivable | (9,700) | (4,763) |
| | 365,953 | 185,741 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| At 1 January | 4,763 | 5,749 |
| Provision (Note 8) | 4,937 | - |
| Impairment losses reversed (Note 8) | - | (986) |
| | 9,700 | 4,763 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Associates | 78,896 | 38,989 |
| SEC group companies | 122,354 | 88,886 |
| Other related companies | - | 8,963 |
| | 201,250 | 136,838 |

The annual interest rates of discounting services provided to related parties ranged from 4.11% to 7.59% for the year ended 31 December 2015 (2014: 4.11% to 7.59% )

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Associates | 79,529 | 34,805 |
| SEC group companies | 83,331 | 2,551 |
| | 162,860 | 37,356 |

Discounted bills receivable relate to bills discounted by SEC group companies and the associates of the Group at the Finance Company. For those bills endorsed by banks, the banks have an irrevocable liability to effect payment when the bills fall due. With regard to commercial acceptance bills, all of them are with recourse to the issuers and endorsers.

## 30. BILLS RECEIVABLE

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within 3 months | 2,224,074 | 2,444,894 |
| Over 3 months but within 6 months | 2,919,640 | 3,005,492 |
| Over 6 months but within 1 year | 1,577,338 | 939,737 |
| | 6,721,052 | 6,390,123 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Associates | 58,548 | 27,919 |
| SEC group companies | 82,384 | 87,716 |
| | 140,932 | 115,635 |

The balances are unsecured, non-interest-bearing and repayable as and when the bills fall due.

Included in the balance of bills receivable as at 31 December 2015 was an amount of RMB201,429,000(2014: RMB298,312,000) related to bills receivable discounted by the Group companies with Finance Company and nil (2014: nil) related to bills receivable discounted by the Group companies with outside financial institutions (Note 39). The balance was thus recorded as bills receivable in the Group's consolidated statement of financial position as at 31 December 2015.

## 31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Prepayments | 8,433,520 | 7,445,608 |
| Deposits and other receivables | 1,175,672 | 1,413,680 |
| Dividend receivables | 76,032 | 25,784 |
| Other current assets | 669,527 | 537,502 |
| Due from the ultimate holding company | - | 4,338 |
| Due from associates | 45,658 | 283,836 |
| Due from SEC group companies | 54,361 | 97,865 |
| Due from other related companies | 116,044 | 429,034 |
| | 10,570,814 | 10,237,647 |
| Less: Provision for deposits and other receivables | (70,000) | (72,928) |
| | 10,500,814 | 10,164,719 |

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

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

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| At 1 January | 72,929 | 47,041 |
| Impairment losses recognised (Note 8) | 6,745 | 25,888 |
| Transfer out due to disposal of subsidiaries | (1,019) | - |
| Assets transferred into held for sale | (5,453) | - |
| Impairment losses reversed (Note 8) | (3,202) | - |
| At 31 December | 70,000 | 72,929 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 32. INVESTMENT (CURRENT)

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Equity investments: | | |
| - At fair value through profit or loss (listed) | 53,152 | 40,705 |
| - Available-for-sale (listed), at fair value | 316,002 | 204,272 |
| - Available-for-sale (unlisted), at fair value | - | - |
| | 369,154 | 244,977 |
| Debt investments: | | |
| - At fair value through profit or loss (listed) | 3,510 | 159,105 |
| - Available-for-sale (unlisted), at fair value | 31,270 | 101,783 |
| - Held-to-maturity (unlisted), at amortised cost | - | - |
| | 34,780 | 260,888 |
| Investment funds: | | |
| - At fair value through profit or loss (listed) | 32,867 | 88,125 |
| - Available-for-sale (listed), at fair value | 1,817,150 | 1,735,408 |
| | 1,850,017 | 1,823,533 |
| Investment products: | | |
| - Available-for-sale, at fair value | 1,226,368 | 1,237,498 |
| Reverse repurchase agreements | 4,591,840 | 1,213,500 |
| | 8,072,159 | 4,780,396 |

During the year, the increase in fair value in respect of the Group's current available-for-sale investments recognised in other comprehensive income amounted to RMB1,029,009,000 (2014: increase in fair value of RMB405,700,000). In addition, upon the disposal of certain current available-for-sale investments during the year, a cumulative gain of RMB612,547,000 (2014: a cumulative gain of RMB111,512,000) was transferred from equity and recognised in the consolidated income statement.

As at 31 December 2015, no listed available-for-sale equity investments was restricted for trading over certain periods of less than one year (2014: nil).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

## 33. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Assets RMB'000 | Liabilities RMB'000 | Assets RMB'000 | Liabilities RMB'000 |
| Convertible debenture arrangements | 659,923 | - | 619,041 | - |
| Forward currency contracts - cash flow hedges | 290 | (25,507) | 4,632 | (3,819) |
| Forward currency contracts - non-hedging | 4,592 | - | 1,124 | - |
| | 664,805 | (25,507) | 624,797 | (3,819) |
| Portion classified as non-current | - | - | - | - |
| Current portion | 664,805 | (25,507) | 624,797 | (3,819) |

As at 31 December 2015 and 2014, financial liabilities designated as financial liabilities at fair value through profit or loss at initial recognition mainly represents arrangements on convertible bonds. On 22 August 2014, the Group's subsidiary, Shanghai Electric Hong Kong Co., Ltd. ("SEHK") entered into a convertible bonds subscription agreement with a Hong Kong listed company, China Smarter Energy Group Holdings Limited ("Smarter Energy")(Formerly named "Rising Development Holdings Limited "), to subscribe convertible bonds with a principal of HKD700,000,000 issued by Smarter Energy. At the same date, SEHK entered into several agreements with several parties on arrangements of guaranteed return and excess earnings from such subscription. The above arrangements include mixed financial instruments containing embedded derivatives. The Group designated them as financial liabilities at fair value through profit or loss at initial recognition.

Under the convertible bonds subscription agreement, since Smarter Energy's closing price per share exceeded 200% of the conversion price for 10 consecutive transaction days and equity transaction amount was not less than HKD30,000,000 for the same period, SEHK converted convertibles into shares at HKD0.8475/share on 26 November 2015. After the conversion, SEHK held 825,959,000 shares, or 10.6% of issued shares, of Smarter Energy. According to the equity transfer agreement entered into between SEHK and a third party on 22 December 2015 and the supplementary agreement entered into on 2 March 2016, SEHK would sell its shares in Smarter Energy to a third party at a consideration of HKD798,078,000 (equivalent to RMB659,923,000) and the agreed transaction date was 10 June 2016 or other date agreed by SEHK. As at 31 December 2015, SEHK received the down payment amounting to HKD200,000,000 for such equity transfer. As of the signing date of the financial statement, SEHK received payment for such equity transfer amounting to HKD500,000,000 in total. As at 31 December 2015, fair value of such financial assets at fair value through profit or loss was HKD798,078,000 (equivalent to RMB659,923,000).

## 33. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

*Forward currency contracts –– cash flow hedges*

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

The terms of the forward currency contracts have been negotiated to match the expected future sales. The cash flow hedges relating to expected future monthly sales in 2015 and 2016 were assessed to be highly effective and a net loss of RMB19,618,000 (net of tax effect) was included in the hedging reserve as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Total fair value losses included in the hedging reserve | (26,157) | (59,004) |
| Deferred tax impact on fair value change | 6,539 | 15,183 |
| Reclassified from other comprehensive income and recognised in the consolidated income statement | - | - |
| Deferred tax on reclassifications to profit or loss | - | - |
| Net losses on cash flow hedges | (19,618) | (43,821) |

*Forward currency contracts –– non - hedging*

In addition, the Group has entered into several forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Decreases in the fair value of non-hedging financial derivatives amounting to RMB2,237,000 (2014: increases in the fair value of RMB68,096,000).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2015 are recognised in the consolidated income statement in the period or periods during which the hedged forecast transaction affects the consolidated income statement. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (five to ten years).

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Cash and bank balances | 31,424,347 | 7,447,817 |
| Time deposits | 5,759,824 | 18,293,655 |
| | 37,184,171 | 25,741,472 |
| Less: Restricted deposits | (632,092) | (628,005) |
| Cash and cash equivalents | 36,552,079 | 25,113,467 |
| Due from the Central Bank | 3,063,635 | 4,244,973 |
| Total | 39,615,714 | 29,358,440 |

As at 31 December 2015, RMB632,092,000 (2014: RMB628,005,000) were held as held at bank as reserve for issuance letter of credit deposit, bank acceptance deposit and letter of guarantee deposit.

As at 31 December 2015, non-restricted time deposits with original maturity over three months when acquired amounted to RMB3,375,836,739 (2014: RMB6,097,090,000) is included in cash and cash equivalents. The transactions related to those non-restricted time deposits are stated as investing activities in the consolidated statement of cash flows.

The amount due from the Central Bank as at 31 December 2015 comprised deposit of RMB2,871,775,339(2014: RMB4,140,741,806) and USD29,546,000(equivalent to RMB191,859,906) (2014: USD17,034,000, equivalent to RMB104,231,046) with the Central Bank, including a statutory reserve of 7.5% and 5% (2014: 14.5% and 5%) for RMB and foreign currency, respectively, on customer deposit held by Finance Company.

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

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Original currency in '000 | RMB'000 | Original currency in '000 | RMB'000 |
| Cash and bank balances: | | | | |
| United States dollars ("USD") | 227,672 | 1,478,406 | 170,092 | 1,040,794 |
| Euro ("EUR") | 133,101 | 944,382 | 24,747 | 184,502 |
| Japan yen ("JPY") | 9,584,546 | 516,368 | 9,401,993 | 482,990 |
| Hong Kong dollars ("HKD") | 247,071 | 206,991 | 18,611 | 14,682 |
| Indian rupee ("INR") | 469,339 | 45,950 | 403,468 | 38,982 |
| Vietnam dong ("VND") | 154,762,207 | 45,911 | 1,691,597 | 498 |
| Malaysian Ringgit ("MYR") | 18,119 | 27,432 | 41,914 | 73,874 |
| Indonesian rupiah ("IDR") | 2,195,733 | 1,034 | - | - |
| Other | 69,234 | 35,500 | 22,577 | 18,538 |
| Time deposits: | | | | |
| USD | 127,000 | 824,687 | 57,547 | 352,128 |
| JPY | 4,525,814 | 243,828 | 4,530,495 | 232,736 |
| Other | - | - | 761 | 4,307 |

RMB is not freely convertible into other currencies. However, according to Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations in China, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

## 35. TRADE PAYABLES

The ageing analysis, based on the invoice date, of the trade payables as at balance sheet dates is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within 3 months | 19,466,576 | 17,057,835 |
| Over 3 months but within 6 months | 3,367,781 | 3,557,033 |
| Over 6 months but within 1 year | 2,646,893 | 2,755,782 |
| Over 1 year but within 2 years | 1,350,893 | 2,196,139 |
| Over 2 years but within 3 years | 761,933 | 901,156 |
| Over 3 years | 613,018 | 469,647 |
| | 28,207,094 | 26,937,592 |

The amounts due to related parties included in trade payables are analysed as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| The ultimate holding company | 1,768 | 551 |
| Associates | 244,228 | 197,202 |
| SEC group companies | 543,051 | 687,563 |
| Other related companies | 30,423 | 123,111 |
| | 819,470 | 1,008,427 |

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The amounts due to related parties are negotiated on credit terms similar to those offered by the major suppliers of the Group.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| USD | 683,127 | 245,708 |
| JPY | 419,457 | 102,322 |
| EUR | 51,263 | 72,856 |
| GBP | 1,202 | - |

## 36. BILLS PAYABLE

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within 3 months | 1,445,977 | 2,049,478 |
| Over 3 months but within 6 months | 1,653,244 | 2,373,344 |
| Over 6 months but within 1 year | 176,886 | 475,232 |
| | 3,276,107 | 4,898,054 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Associates | 31,500 | 47,207 |
| SEC group companies | 111,986 | 142,509 |
| Other related companies | - | 100 |
| | 143,486 | 189,816 |

Bills payable are non-interest-bearing.

## 37. OTHER PAYABLES AND ACCRUALS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Advances from customers | 38,749,100 | 35,781,372 |
| Other payables | 3,973,003 | 3,332,681 |
| Government grants | 791,673 | 591,845 |
| Dividend payable to non-controlling shareholders | 218,893 | 223,635 |
| Accruals | 4,858,124 | 4,570,381 |
| Bonds payable due within one year | 399,834 | - |
| Payroll payable | 2,422,032 | 2,182,115 |
| Due to the ultimate holding company | 95,477 | 176,826 |
| Due to associates | 35,009 | 103,036 |
| Due to SEC group companies | 6,717 | 5,507 |
| Due to other related companies | 215,520 | 306,543 |
| | 51,765,382 | 47,273,941 |

The Group's balance with related parties is unsecured, non-interest-bearing and repayable on demand or within one year.

On 24 December 2014, the Company's Board of Directors discussed and approved the co-R&D agreement entered between the Company's wholly-owned subsidiary SHMP and SE Corporation. As of 31 December 2014, SHMP has received the advance payment of RMB140,000,000 from SE Corporation under the agreement. In 2015, according to the progress of research and development, RMB66,038,000 is recognised as R&D income, and the remaining RMB70,011,000 will be completed and recognised in 2016.

## 38. CUSTOMER DEPOSITS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Deposits from the ultimate holding company | 2,970,492 | 902,629 |
| Deposits from associates | 114,159 | 62,259 |
| Deposits from SEC group companies | 2,846,059 | 3,217,519 |
| Deposits from other related companies | 9,515 | 87,754 |
| Deposits from non-related parties | 93,644 | 869 |
| | 6,033,869 | 4,271,030 |
| Repayable: | | |
| On demand | 5,303,617 | 3,897,330 |
| Within 3 months | 127,000 | 50,000 |
| Over 3 months but within 1 year | 603,252 | 323,700 |
| | 6,033,869 | 4,271,030 |

The annual interest rates of customer deposits provided to related parties range from 0.35% to 3.75% (2014: 0.35% to 3.75%).

## 39. BORROWINGS

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| Current bank loans | | | | | | |
| - Unsecured | 1.80-5.29 | 2016 | 1,009,242 | 1.58-6.16 | 2015 | 4,109,929 |
| - Secured | 4.69 | 2016 | 83,000 | 5.32-6.60 | 2015 | 383,000 |
| - Trade receivables factoring | - | - | - | 5.05-5.60 | 2015 | 400,000 |
| Current portion of long-term bank loan | | | | | | |
| - Unsecured | 5.84 | 2016 | 39,283 | 5.84 | 2015 | 58,492 |
| - Unsecured | 5.53 | 2016 | 61,560 | 5.53 | 2015 | 11,823 |
| - Trade receivables factoring | - | - | - | 6.03 | 2015 | 5,108 |
| - Unsecured | 5.35 | 2016 | 50,968 | - | - | - |
| - Unsecured | 4.28 | 2016 | 10,000 | 2.55 | 2015 | 455 |
| - Unsecured | 3M HIBOR +2.30 | 2016 | 586,460 | 6.23 | 2015 | 6,202 |
| - Secured | 3M LIBOR +3.65 | 2016 | 45,455 | 3M LIBOR +3.65 | 2015 | 33,654 |
| | | | 1,885,968 | | | 5,008,663 |
| Non-current bank loans | | | | | | |
| - Unsecured | 4.28 | 2018 | 38,000 | 5.53 | 2016 | 62,818 |
| - Unsecured | - | - | - | 5.35 | 2016 | 37,153 |
| - Unsecured | - | - | - | 5.84 | 2016 | 39,283 |
| - Unsecured | - | - | - | 6.23 | 2021 | 39,507 |
| - Unsecured | - | - | - | 3M HIBOR +2.30 | 2016 | 552,209 |
| - Secured | 3M LIBOR +3.65 | 2018 | 84,729 | 3M LIBOR +3.65 | 2018 | 122,674 |
| | | | 122,729 | | | 853,644 |
| | | | 2,008,697 | | | 5,862,307 |

## 39. BORROWINGS (CONTINUED)

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable | | |
| within one year or demand | 1,885,968 | 5,008,663 |
| in the second year | - | 691,463 |
| in the third to fifth years inclusive | 122,729 | 122,674 |
| beyond five years | - | 39,507 |
| | 2,008,697 | 5,862,307 |

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Original currency in '000 | RMB equivalent RMB'000 | Original currency in '000 | RMB equivalent RMB'000 |
| Foreign currency borrowing balances | | | | |
| USD | 23,248 | 150,963 | 36,645 | 224,231 |
| JPY | - | - | 84,000 | 4,318 |
| EUR | 15,399 | 109,259 | 400,000 | 2,982,240 |
| MYR | 68,600 | 103,860 | 33,250 | 58,600 |
| HKD | 700,000 | 586,460 | 700,000 | 552,209 |

As at 31 December 2015, certain of the Group's bank loans are secured by mortgages over certain of the Group's buildings with a net carrying amount of approximately RMB340,585,000 (31 December 2014: building with net carrying amount RMB1,338,267,000) (Note 14).

As at 31 December 2015, accounts receivable with a net carrying amount of nil (2014: approximately RMB508,094,000) were factored with recourse to obtain certain bank facilities of nil (2014: RMB400,000,000) (Note 28).

| | Carrying amount | | Fair values | |
|---|---|---|---|---|
| | 2015<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | 2014<br>RMB'000 |
| Floating rate bank loans | 84,729 | 674,883 | 79,536 | 645,388 |
| Fixed rate bank loans | 38,000 | 178,761 | 37,388 | 174,952 |
| | 122,729 | 853,644 | 116,924 | 820,340 |

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.75% (2014: 5.6%-6.15%) and are within level 2 of the fair value hierarchy.

## 40. PROVISIONS

| | Product warranty RMB'000 | Onerous contracts and legal provision RMB'000 | Early retirement benefits and staff severance costs RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2015 | 963,273 | 2,334,731 | 141,431 | 103,463 | 3,542,898 |
| Additional provisions | 962,845 | 766,922 | 152,873 | 95,817 | 1,978,457 |
| Reversal during the year | (107,277) | (1,025,006) | - | - | (1,132,283) |
| Amounts utilised during the year | (312,171) | (360,211) | (126,986) | (24,864) | (824,232) |
| Liabilities transferred into pending for disposal | (4,108) | (34,430) | - | (9,037) | (47,575) |
| Deduction due to disposal of subsidiaries | (64,150) | (46,905) | - | - | (111,055) |
| At 31 December 2015 | 1,438,412 | 1,635,101 | 167,318 | 165,379 | 3,406,210 |
| Less: current portion repayable within 12 months | (1,438,412) | (1,635,101) | (18,330) | (165,379) | (3,257,222) |
| Non-current portion | - | - | 148,988 | - | 148,988 |

### *Product warranty provision*

The Group provides warranties ranging from one to two years to its customers on certain products and undertakes to repair or replace items that fail to perform satisfactorily. The amount of the provision for warranties is estimated based on the sales volume and past experience on the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

### *Onerous contracts provision*

The Group has entered into several contracts in respect of the sale of power equipment and nuclear power equipment. Under these contracts, the unavoidable costs of meeting the obligations have exceeded the economic benefits expected to be received as at 31 December 2015. Provision has been made for these onerous contracts based on the estimated minimum net cost of exiting from the contracts.

## 40. PROVISIONS (CONTINUED)

*Early retirement benefits and staff severance costs*

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

As at 31 December 2015, certain provisions made for the following lawsuits are included in the balances:

(1) The Company and PT Merak Energi Indonesia ("Indonesia Company") entered into a power station construction contract ("Engineering Contract") in Indonesia with a total contract value of USD108,000,000 and relevant performance guarantee of USD13,500,000. In 2009, Indonesia Company unilaterally terminated the Engineering Contract and enforced the guarantee letter for advance payment and performance guarantee amounting to USD10,800,000 and USD13,500,000, respectively, in 2010. Both parties had appealed for arbitration in Singapore.

On 14 January 2014, the Company received a partial award from Singapore International Arbitration Centre. The counter-claims lodged by the Company against Indonesia Company based on certain terms of the Engineering Contract were dismissed and Indonesia Company could claim for its loss against the Company according to the common law. The amount of the loss will be determined in a separate phase of arbitration (quantitative trial stage). On 3 April 2014, the Company submitted the application for revocation of the law suit to Singapore High Court, which was rejected on 3 October 2014.

On 4 November 2015, the Company received the second part of award from Singapore International Arbitration Centre: The Company shall pay Indonesia Company USD66,996,000 and IDR9,045,230,000 (equivalent to RMB430,451,000 in total); and interest and attorney fee and other costs would be considered after the submission of a written application by Indonesia Company. On 7 March 2016, the Company and Indonesia Company reached an agreement. The Company would pay amounting to USD54,500,000 to Indonesia Company in instalment in 2015. The Company adjusted the provision according to the arbitration result and the agreement.

## 41. BONDS

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Due date | RMB'000 | Effective interest rate (%) | Due date | RMB'000 |
| Bonds payable due within one year | | | | | | |
| - 12 Electric bond 01(a) | 4.70 | 2016 | 399,834 | - | - | - |
| | | | 399,834 | | | - |
| Bonds payable due after one year | | | | | | |
| - 12 Electric bond 01(a) | - | - | - | 4.70 | 2016 | 399,083 |
| - 12 Electric bond 02(a) | 5.03 | 2018 | 1,595,833 | 5.03 | 2018 | 1,594,118 |
| - Electric convertible bond (b) | 5.03 | 2021 | 4,951,447 | - | - | - |
| - Electric euro bond (c) | 1.19 | 2020 | 4,245,523 | - | - | - |
| | | | 10,792,803 | | | 1,993,201 |
| | | | 11,192,637 | | | 1,993,201 |

## 41. BONDS (CONTINUED)

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Analysed as : | | |
| Within one year or on demand | 399,834 | - |
| Within two years | - | 399,083 |
| Within three to five years, including head and tail | 5,841,356 | 1,594,118 |
| After five years | 4,951,447 | - |
| | 11,192,637 | 1,993,201 |

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Original currency in '000 | RMB equivalent RMB'000 | Original currency in '000 | RMB equivalent RMB'000 |
| Balance of bonds payable denominated in foreign currency | | | | |
| EUR | 598,365 | 4,245,523 | - | - |
| | 598,365 | 4,245,523 | - | - |

(a) Approved by the China Securities Regulatory Commission ("CSRC") (Zheng Jian Xu Ke [2012]1703), on 27 February 2013, the Company issued three-year fixed rate bonds with an offering size of RMB400 million and coupon rate of 4.50% and five-year fixed rate bonds with an offering size of RMB1,600 million and coupon rate of 4.90%, as the first tranche. The Bonds were issued at par value and the interest is settled on an annual basis with the principal payable in full when due. No guarantee was provided for the bonds. The maturity dates of the Bonds are 27 February 2016 and 27 February 2018, respectively.

(b) On 2 February 2015, the Group issued convertible bonds due in 2021 amounting to RMB6 billion. Such convertible bonds could be converted into the Company's A share at RMB10.66 per share since 3 August 2015. Interest is accrued on a yearly basis and the principle and the interest repaid upon maturity. Interest of such bonds is calculated based on a simple-interest calculation annually and the nominal interest rates are: 0.2% for the first year, 0.5% for the second year, 1.0% for the third year, 1.5% for the fourth year, 1.5% for the fifth year and 1.6% for the sixth year. The principal is repaid upon maturity by deducting issuance costs of the convertible bonds amounting to RMB6 billion, liability of RMB4,745,903 thousand was charged into bonds payable and equity of RMB1,214,919 thousand was charged into capital surplus.

(c) On 22 May 2015, the Group's wholly-owned subsidiary, SEC Newage Co., Ltd. issued a bond of EUR600 million, eurobonds, secured by the Group, at Ireland Stock Exchange, with a term of 5 years and annual interest rate of 1.125%.

## 42. OTHER NON-CURRENT LIABILITIES

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Relocation compensation | 248,904 | 527,514 |
| Defined benefit obligations | - | 33,848 |
| Finance lease deposits | 489,948 | 335,671 |
| Non-interest-bearing loans | 1,258 | - |
| R&D Subsidies | 44,049 | 68,526 |
| Others | 97,977 | 120,654 |
| Due to SEC group companies | 1,799 | 750 |
| Due to associates | 43,441 | - |
| | 927,376 | 1,086,963 |

*Defined benefit plan*

The Group operates an unfunded defined benefit plan for part of its overseas employees. The Group's defined benefit plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. This review includes the asset-liability matching strategy and investment risk management policy. The trustees decide the contribution based on the results of the annual review. The investment portfolio targets a mix of debt instruments and investment.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and debt market risk.

## 43. SHARE CAPITAL

### Shares

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Registered, issued and fully paid: | | |
| A shares of RMB1.00 each | 9,851,393 | 9,850,715 |
| H shares of RMB1.00 each | 2,972,912 | 2,972,912 |
| Total | 12,824,305 | 12,823,627 |

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

## 43. SHARE CAPITAL (CONTINUED)

| | Number of shares in issue RMB'000 | Issued capital RMB'000 | Share premium RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2014, 31 December 2014, 1 January 2015 | 12,823,627 | 12,823,627 | 3,606,286 | 16,429,913 |
| Additions | 678 | 678 | 7,809 | 8,487 |
| 31 December 2015 | 12,824,305 | 12,824,305 | 3,614,095 | 16,438,400 |

## 44. RESERVES

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

### *Capital reserve*

The capital reserve of the Group includes the share premium and the non-distributable reserves of the Company and its subsidiaries recognised in accordance with the accounting and financial regulations of the PRC.

### *Contributed surplus*

The Group's contributed surplus represents the excess of (i) the Company's cost of investments in the net assets of subsidiaries and an associate acquired from SE Corporation as part of the Group reorganisation over (ii) the aggregate amount of the paid-up capital of these subsidiaries attributable to the Group and the carrying value of the Group's investment in the associate upon the establishment of the Company.

### *Surplus reserves*

In accordance with the PRC Company Law and the Group companies' articles of association, the Company and its subsidiaries are required to transfer a certain percentage of their net profits after tax to the surplus reserves, comprising the statutory surplus reserve and discretionary surplus reserve. Subject to certain restrictions set out in the relevant PRC regulations and in the Group companies' articles of association, the statutory surplus reserve may be used either to offset losses, or to be converted to share capital, and the discretionary surplus reserve is set aside to cover losses. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

### *Distributable reserves*

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB8,369,782,000 (2014: RMB9,113,719,000).

The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with generally accepted accounting principles in the PRC and those under HKFRSs.

## 45. CASH FLOWS FROM OPERATING ACTIVITIES

| | Year ended 31 December | |
|---|---|---|
| | 2015 RMB'000 | 2014 RMB'000 |
| **Cash flows from operating activities** | | |
| Profit before tax | 5,943,850 | 5,438,654 |
| Adjustments for: | | |
| Finance Company: | | |
| Interest income from banks and other financial institutions | (405,799) | (356,778) |
| Interest income on loans receivable and discounted bills receivable | (412,162) | (403,339) |
| Finance lease income | (440,167) | (380,659) |
| Interest income on non-restricted time deposits with original maturity of over three months when acquired | (111,307) | (133,127) |
| Interest income on debt investments | (31,140) | (31,840) |
| Dividend income from equity investments and investment funds | (74,086) | (77,221) |
| Gains on disposal of items of property, plant and equipment, net | (1,033) | (135,888) |
| Losses on disposal of other intangible assets, net | 141 | 74 |
| Gains on disposal of land use rights | - | (20,858) |
| Losses on disposal of subsidiaries | (926,018) | - |
| Losses on disposal of associates | 36,167 | - |
| Investments at fair value through profit or loss: | | |
| Unrealised fair value gains, net | 58,378 | (58,631) |
| Realised fair value gains, net | (125,590) | (79,326) |
| Derivative financial instruments - transactions not qualifying as hedges: | | |
| Unrealised fair value gains, net | (2,237) | (68,095) |
| Realised gains on available-for-sale investments (transferred from equity) | (634,679) | (206,158) |
| Other gains | (10,939) | (206) |
| Finance Company: | | |
| Interest expense due to banks and other financial institutions | - | 15,621 |
| Interest expense on customer deposits | - | 35,972 |
| Depreciation of property, plant and equipment | 1,368,937 | 1,597,117 |
| Depreciation of investment properties | 8,357 | 7,630 |
| Amortisation of prepaid land lease payments | 43,114 | 41,755 |
| Amortisation of intangible assets | 129,149 | 125,606 |
| Depreciation of other non-current assets | 66,374 | 100,792 |
| Early retirement benefits and staff severance costs | 208,262 | 210,761 |
| Write-down of inventories to net realisable value | 1,216,122 | 729,754 |
| | (40,156) | 912,956 |

## 45. CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

| | Year ended 31 December | |
|---|---|---|
| | 2015<br>RMB'000 | 2014<br>RMB'000 |
| **Cash flows from operating activities (continued)** | | |
| Share of profits of joint ventures | (15,682) | (944) |
| Share of profits of associates | (433,111) | (532,073) |
| Impairment of trade receivables and other receivables | 794,048 | 141,398 |
| Impairment of loans receivable | 30,339 | 97,228 |
| Impairment of lease receivables | 101,424 | 33,014 |
| Reversal of impairment of discounted bills receivable | 4,937 | (986) |
| Impairment of items of property, plant and equipment | 120,510 | - |
| Provision for product warranty | 855,568 | 522,542 |
| Provision for onerous contracts | (59,689) | 969,374 |
| Reversal of provision for late delivery | - | (9,485) |
| Other provisions | 95,817 | 39,370 |
| Finance costs | 612,774 | 296,481 |
| Exchange losses, net | (153,099) | 12,639 |
| | 1,953,836 | 1,568,558 |
| Decrease/(increase) in inventories | 330,580 | (4,157,977) |
| Increase in construction contracts | (901,887) | (606,263) |
| Increase in trade receivables and other receivables | (2,931,678) | (1,828,404) |
| Decrease/(increase) in other non-current assets | 6,727 | (68,220) |
| Increase in trade payables, bills payable, other payables and accruals | 6,089,968 | 5,764,954 |
| Utilisation of product warranty provision and other provisions | (980,809) | (1,251,111) |
| **Cash generated from operations** | 9,470,431 | 5,773,147 |

## 46 CONTINGENT LIABILITIES AND FINANCIAL GUARANTEES

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Guarantees given to banks in connection with facilities granted to: | | |
| - Associates | 96,105 | 90,561 |
| | 96,105 | 90,561 |
| Guarantees given to banks in connection with facilities utilised by: | | |
| - Associates | - | 87,624 |
| | - | 87,624 |
| Non-financial guarantee letters issued by Finance Company on behalf of: | | |
| - Associates | 4,163 | 7,935 |

(a) As of 31 December 2015, non-financial guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB22,660,881,000 (2014: RMB20,468,752,000).

(b) As of 31 December 2015, contingent liabilities amounted to RMB5,267,000 relating to pending lawsuits and arbitration (2014: RMB117,393,000).

## 47. LEASING

### *(a) As lessor*

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

As at 31 December 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within one year | 39,139 | 53,273 |
| In the second to fifth years, inclusive | 105,418 | 131,599 |
| After five years | 7,247 | 37,759 |
| | 151,804 | 222,631 |

## 47. LEASING (CONTINUED)

*(b) As lessee*

The Group leases certain properties, plant and machinery and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 50 years, while those for plant and machinery are for terms ranging from 1 to 20 years and those for motor vehicles are for a term of one year.

As at 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within one year | 98,481 | 104,320 |
| In the second to fifth years, inclusive | 316,014 | 246,131 |
| After five years | 56,228 | 43,421 |
| | 470,723 | 393,872 |

## 48. COMMITMENTS

As at 31 December 2015, the Group had the following capital commitments:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| In respect of the acquisition of | | |
| - Land and buildings | 30,446 | 34,023 |
| - Plant and machinery | 831,807 | 899,398 |
| In respect of capital contribution to | | |
| - Associate | 57,600 | 72,000 |
| | 919,853 | 1,005,421 |
| Authorised, but not contracted for: | | |
| In respect of the acquisition of | | |
| - Plant and machinery | 81,113 | 173,903 |
| | 81,113 | 173,903 |
| | 1,000,966 | 1,179,324 |

## 49. TRANSACTION WITH NON-CONTROLLING INTEREST

*Acquisition of additional interest of subsidiaries*

(a) In June 2015, the Company's subsidiary, Shanghai Electric Hong Kong Co., Ltd., acquired 8% share of the Company's subsidiary, Shanghai Electric Group Finance Co., Ltd., at a consideration of RMB310,117,000. Carrying amount of Shanghai Electric Group Finance Co., Ltd. at acquisition date was RMB4,971,437,500. The Group derecognised non-controlling interests RMB397,715,000 and increased equity attributable to the Company by RMB87,598,000. Effect of such transaction on equity attributable to owners of the company for the period is as follows:

| | June 30th 2015<br>RMB'000 |
|---|---|
| Carrying amount of non-controlling interest purchased | 397,715 |
| Consideration paid for non-controlling interest | (310,117) |
| Excess in consideration paid for non-controlling interest | 87,598 |

(b) In June 2015, the Company acquired 49% share of its subsidiary Shanghai Electric Wind Energy Co., Ltd. at a consideration of RMB36,731,000. Carrying amount of Shanghai Electric Wind Energy Co., Ltd. was RMB (104,467,000) at the acquisition date. The Group's non-controlling interests accordingly increased by RMB104,467,000 and equity attributable to the parent company decreased by RMB141,198,000. Effect of such transaction on equity attributable to equity holders of the Company are summarised as follows:

| | June 30th 2015<br>RMB'000 |
|---|---|
| Carrying amount of non-controlling interest purchased | (104,467) |
| Consideration paid for non-controlling interest | (36,731) |
| Excess in consideration paid for non-controlling interest | (141,198) |

## 50. DISPOSAL OF INTERESTS IN SUBSIDIARIES

(a) The Company's subsidiary, Shanghai Mechanical & Electrical Industry Co., Ltd ("SME"), disposed its wholly-owned subsidiary, Shanghai Guanghua Printing Machine Co., Ltd. ("Guanghua") on 22 May 2015.Therefore, the Group deconsolidated Guanghua since the date that control ceases.

In the period, disposals of subsidiaries by the Group are as follows:

| | **Amount RMB'000** |
|---|---|
| Consideration received from disposal of subsidiaries | 63,879 |
| Less: Net assets disposed (Note) | 74,523 |
| Share of losses from the valuation date to the disposal date attributable to the Group payable to the acquirer | (61,405) |
| | 76,997 |
| Transfer from other comprehensive income to profit or loss for the current period | - |
| Gains on disposals | 76,997 |

(b) The Company's subsidiary, Shanghai Mechanical & Electrical Industry Co., Ltd ("SME"), disposed its wholly-owned subsidiary, Goss International Corporation ("Goss") on 17 September 2015. Therefore, the Group deconsolidated Goss since the date that control ceases.

In the period, disposals of subsidiaries by the Group are as follows:

| | **Amount RMB'000** |
|---|---|
| Consideration received from disposal of subsidiaries | - |
| Less: Net assets disposed (Note) | 891,347 |
| | 891,347 |
| Transfer from other comprehensive income to profit or loss for the current period | (42,326) |
| Gains on disposals | 849,021 |

Note: Guanghua and Goss International were both at net liability at the disposal dates.

## 51. RELATED PARTY TRANSACTIONS

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

(1) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Purchase of materials from: | | |
| Associates | 2,913,380 | 3,270,802 |
| SEC group companies | 470,100 | 719,667 |
| Other related companies | 570,032 | 1,099,817 |
| | 3,953,512 | 5,090,286 |
| Sales of goods to: | | |
| Associates | 99,000 | 77,641 |
| SEC group companies | 116,086 | 174,570 |
| Other related companies* | 4,047,451 | 261,358 |
| | 4,262,537 | 513,569 |
| Construction contracts from: | | |
| Other related companies | 374,672 | 238,953 |
| Sale of scrap and spare parts to: | | |
| Associates | 10,262 | 15,651 |
| Purchases of services from: | | |
| The ultimate holding company | - | 606 |
| Associates | - | 254 |
| SEC group companies | 8,830 | 6,490 |
| Other related companies | 12,062 | 78,531 |
| | 20,892 | 85,881 |
| Provision of services to: | | |
| The ultimate holding company | 68,101 | 1,500 |
| Associates | 25,000 | 64,215 |
| SEC group companies | 29,523 | 22,673 |
| Other related companies | - | 98 |
| | 122,624 | 88,486 |
| Purchases of equipment from: | | |
| SEC group companies | 820 | 3,261 |
| Disposal of property, plant and equipment to: | | |
| The ultimate holding company | 15 | 863,046 |

## 51. RELATED PARTY TRANSACTIONS (CONTINUED)

* As the financial performance of certain subsidiaries of Group collective is expected to be significant to the consolidated financial performance of the Group of 2015, Shanghai Electric Power Co., Ltd ("Shanghai Electric Power"), a minority shareholder that have significant influence over those subsidiaries, is regarded as a related party of the Group since 1 January 2015. The transactions and balance with this related party for the year ended 31 December 2015 have been included.

(1) (continued)

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Rental income from: | (i) | | |
| Associates | | 22,197 | 34,732 |
| Other related companies | | - | 1,769 |
| | | 22,197 | 36,501 |
| Rental fee to: | (i) | | |
| The ultimate holding company | | 27,743 | 21,866 |
| SEC group companies | | 2,043 | 823 |
| | | 29,786 | 22,689 |

Note:

(i) The rental income and rental fee were based on mutually agreed terms with reference to the market rates.

During the year ended 31 December 2015, the Group effected the following non-recurring transactions:

The Company and SE Corporation entered into entrusted agreements in year 2007, according to which the Company entrusted SE Corporation to negotiate with Vietnam Quang Ninh Thermal Power Joint-Stock Company ("Vietnam Quang Ninh") and respective suppliers as well as constructors regarding the construction of Phase I and Phase II of a coal-fired power plant (the "Project"). SE Corporation acted as an entrusted party to sign the contracts on behalf of the Company. SE Corporation would not charge any fee in relation to the entrusted agreements apart from a reimbursement of reasonable costs actually incurred. The aggregate amount of the agreements was USD889,786,000.

No sales (2014: RMB103,154,000) were recognised regarding the Project during the year. In addition, no purchase (2014: RMB1,498,000) and no agent fee (2014: RMB200,000) were incurred through SE Corporation during the year.

SMEI acquired 100% equity of Goss International from SE Corporation in 2012 and entered into a 3 years profit compensation agreement with SE Corporation for the period from 2012 to 2014. As the performance result of Goss International in 2014 did not meet forecasted profit, SE Corporation is expected to compensate SMEI by cash. The difference between the Goss International's audit net profit and the forecasted 2014 profit is of RMB404,375 thousands. The Group received the compensation from SE Corporation in 2015 (2014: nil), in which amounting to RMB192,806,000 was recognised in capital surplus and amounting to RMB211,569,000 was recognised in non-controlling interest.

## 51. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As at 31 December 2015, the Group has provided corporate guarantees in connection with facilities totalling USD14,800,000 (31 December 2014: USD14,800,000) to related parties, out of which nil (31 December 2014: USD14,320,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB4,163,000 (31 December 2014: RMB7,935,000).

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Interest expenses for customer deposits: | | |
| The ultimate holding company | 3,609 | 2,488 |
| Associates | 1,132 | 510 |
| SEC group companies | 69,003 | 33,921 |
| Other related companies | 1,892 | 1,633 |
| | 75,636 | 38,552 |
| Interest income for loans and bills discounted: | | |
| The ultimate holding company | 105,687 | 154,349 |
| Associates | 6,755 | 7,915 |
| SEC group companies | 40,774 | 47,170 |
| Other related companies | 41,427 | 2,901 |
| | 194,643 | 212,335 |

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

(4) Balances due from/to related parties

The balances due from/to related parties mainly resulted from loans, trading transactions, customer deposits, discounted bills receivable and miscellaneous amounts reimbursable by/to the related parties. Further details are set out in Notes 22, 29, 30, 31, 36, 37, 38, 39 and 42, respectively.

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

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

## 51. RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Fees | 750 | 563 |
| Salaries, bonuses and allowances received from the Group | 6,906 | 8,568 |
| Pension scheme contributed by the Group | 139 | 149 |
| Other social benefit schemes contributed by the Group | 162 | 213 |
| | 7,957 | 9,493 |

Further details of directors' and supervisors' emoluments are included in Note 54 to the Consolidated Financial Statements.

## 52. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Financial assets

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss<br>RMB'000 | Derivative financial instruments designated as hedging instruments<br>RMB'000 | Held-to-maturity investments<br>RMB'000 | Loans and receivables<br>RMB'000 | Available-for-sale financial assets<br>RMB'000 | Total<br>RMB'000 |
| Loans receivable | - | - | - | 6,761,720 | - | 6,761,720 |
| Lease receivables | - | - | - | 8,588,395 | - | 8,588,395 |
| Equity investments | 53,152 | - | - | - | 1,475,125 | 1,528,277 |
| Debt investments | 3,510 | - | - | - | 434,319 | 437,829 |
| Investment products | - | - | - | - | 1,226,368 | 1,226,368 |
| Reverse repurchase agreements | - | - | - | 4,591,840 | - | 4,591,840 |
| Trade receivables | - | - | - | 25,551,549 | - | 25,551,549 |
| Discounted bills receivable | - | - | - | 365,953 | - | 365,953 |
| Bills receivable | - | - | - | 7,872,908 | - | 7,872,908 |
| Financial assets included in prepayments, deposits and other receivables | - | - | - | 1,272,574 | - | 1,272,574 |
| Investment funds | 32,867 | - | - | - | 1,817,150 | 1,850,017 |
| Derivative financial instruments | 4,592 | 660,213 | - | - | - | 664,805 |
| Due from the Central Bank | - | - | - | 3,063,635 | - | 3,063,635 |
| Restricted deposits | - | - | - | 632,092 | - | 632,092 |
| Cash and cash equivalents | - | - | - | 36,514,743 | - | 36,514,743 |
| | 94,121 | 660,213 | - | 95,215,409 | 4,952,962 | 100,922,705 |

## 52. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

### Financial liabilities

| | 2015 | | | |
|---|---|---|---|---|
| | Financial liabilities at fair value through profit or loss RMB'000 | Derivative financial instruments designated as hedging instruments RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
| Trade payables | - | - | 28,207,094 | 28,207,094 |
| Bills payable | - | - | 4,427,963 | 4,427,963 |
| Financial liabilities included in other payables and accruals | - | - | 6,615,344 | 6,615,344 |
| Customer deposits | - | - | 6,033,869 | 6,033,869 |
| Interest-bearing bank and other borrowings | - | 2,008,699 | - | 2,008,699 |
| Financial liabilities included in other non-current liabilities | - | - | 563,925 | 563,925 |
| Bonds | - | - | 10,832,835 | 10,832,835 |
| Derivative financial instruments | - | 25,507 | - | 25,507 |
| | - | 2,034,206 | 56,681,030 | 58,715,236 |

### Financial assets

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Derivative financial instruments designated as hedging instruments RMB'000 | Held-to-maturity investments RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
| Loans receivable | - | - | - | 5,578,479 | - | 5,578,479 |
| Lease receivables | - | - | - | 5,349,114 | - | 5,349,114 |
| Equity investments | 40,705 | - | - | - | 1,061,939 | 1,102,644 |
| Debt investments | 159,105 | - | - | - | 508,733 | 667,838 |
| Investment products | - | - | - | - | 1,237,498 | 1,237,498 |
| Reverse repurchase agreements | - | - | - | 1,213,500 | - | 1,213,500 |
| Trade receivables | - | - | - | 26,055,777 | - | 26,055,777 |
| Discounted bills receivable | - | - | - | 185,741 | - | 185,741 |
| Bills receivable | - | - | - | 6,390,123 | - | 6,390,123 |
| Financial assets included in prepayments, deposits and other receivables | - | - | - | 1,573,344 | - | 1,573,344 |
| Investment funds | 88,125 | - | - | - | 1,735,408 | 1,823,533 |
| Derivative financial instruments | 1,124 | 623,673 | - | - | - | 624,797 |
| Due from the Central Bank | - | - | - | 4,244,973 | - | 4,244,973 |
| Restricted deposits | - | - | - | 628,005 | - | 628,005 |
| Cash and cash equivalents | - | - | - | 25,113,467 | - | 25,113,467 |
| | 289,059 | 623,673 | - | 76,332,523 | 4,543,578 | 81,788,833 |

## 52. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

### Financial liabilities

| | 2014 | | | |
|---|---|---|---|---|
| | Financial liabilities at fair value through profit or loss | Derivative financial instruments designated as hedging instruments | Financial liabilities at amortised cost | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | - | - | 26,937,592 | 26,937,592 |
| Bills payable | - | - | 4,898,054 | 4,898,054 |
| Financial liabilities included in other payables and accruals | - | - | 4,415,669 | 4,415,669 |
| Customer deposits | - | - | 4,271,030 | 4,271,030 |
| Interest-bearing bank and other borrowings | - | 5,862,307 | - | 5,862,307 |
| Financial liabilities included in other non-current liabilities | - | - | 347,945 | 347,945 |
| Bonds | - | - | 1,993,201 | 1,993,201 |
| Derivative financial instruments | - | 3,819 | - | 3,819 |
| | - | 5,866,126 | 42,863,491 | 48,729,617 |

# 53. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

## Balance sheet of the Company

| | As at 31 December | |
|---|---|---|
| | **2015 RMB'000** | **2014 RMB'000** |
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 1,041,294 | 835,957 |
| Investment properties | 42,288 | 44,600 |
| Prepaid land lease payments | 211,637 | 217,037 |
| Intangible assets | 162,855 | 89,856 |
| Investments in subsidiaries | 19,378,508 | 17,802,073 |
| Investments in associates | 1,832,726 | 1,886,062 |
| Other investments | 695,131 | 616,000 |
| Deferred tax assets | 1,229,467 | 410,898 |
| Loans receivable | - | 620,000 |
| Other non-current assets | - | 550 |
| Total non-current assets | 24,593,906 | 22,523,033 |
| **Current assets** | | |
| Inventories | 55,343 | 166,149 |
| Construction contracts | 448,622 | 90,517 |
| Trade receivables | 15,146,579 | 16,015,841 |
| Loans receivable | 1,138,000 | 875,000 |
| Bills receivable | 1,088,056 | 802,200 |
| Prepayments, deposits and other receivables | 15,816,475 | 15,409,628 |
| Investments | 150,000 | - |
| Derivative financial instruments | - | 3,844 |
| Cash and cash equivalents | 23,010,275 | 16,422,177 |
| Total current assets | 56,853,350 | 49,785,356 |
| **Total assets** | 81,447,256 | 72,308,389 |

## 53. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

### Balance sheet of the Company (continued)

| | Note | As at 31 December 2015 RMB'000 | As at 31 December 2014 RMB'000 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Bonds | | 6,547,280 | 1,993,201 |
| Interest-bearing bank and other borrowings | | - | - |
| Government grants | | - | 3,400 |
| Other non-current liabilities | | 50,062 | 39,146 |
| Total non-current liabilities | | 6,597,342 | 2,035,747 |
| **Current liabilities** | | | |
| Trade payables | | 25,295,499 | 22,989,984 |
| Bills payable | | 1,058,559 | 373,874 |
| Other payables and accruals | | 18,515,104 | 16,589,789 |
| Derivative financial instruments | | 24,428 | 2,114 |
| Interest-bearing bank and other borrowings | | 490,000 | 1,050,455 |
| Tax payable | | 396,365 | 353,265 |
| Provisions | | 660,134 | 848,151 |
| Total current liabilities | | 46,440,089 | 42,207,632 |
| **Total liabilities** | | 53,037,431 | 44,243,379 |
| **Equity** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | 12,824,305 | 12,823,627 |
| Reserves | (a) | 15,585,520 | 14,488,251 |
| Retain earnings | (a) | - | 753,132 |
| **Total equity** | | 28,409,825 | 28,065,010 |
| **Total equity and liabilities** | | 81,447,256 | 72,308,389 |

The balance sheet of the Company was approved by the Board of Directors on 30 March 2016 and was signed on its behalf.

| | |
|---|---|
| Mr. Huang Dinan | Mr. Zheng Jianhua |
| Chairman and CEO | Director and President |

## 53. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

| | Capital surplus RMB'000 | Surplus reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2014 | 3,545,701 | 1,526,001 | 6,908,990 | 11,980,692 |
| Total comprehensive income for the year | 238,261 | - | 3,022,430 | 3,260,691 |
| Appropriation of statutory surplus reserves | - | 287,569 | (287,569) | - |
| Proposed 2014 final dividend | - | - | (753,132) | (753,132) |
| As at 31 December 2014 and 1 January 2015 | 3,783,962 | 1,813,570 | 8,890,719 | 14,488,251 |
| Total comprehensive income for the year | (40,411) | - | (85,049) | (125,460) |
| Equity in convertible bonds | 1,214,919 | - | - | 1,214,919 |
| Others | 7,810 | - | - | 7,810 |
| Appropriation of statutory surplus reserves | - | 1,022 | (1,022) | - |
| Proposed 2015 final dividend | - | - | - | - |
| As at 31 December 2015 | 4,966,280 | 1,814,592 | 8,804,648 | 15,585,520 |

As at 31 December 2015, balance of capital surplus included the Company's share premium of RMB3,614,095,000 (in 2014: RMB3,606,286,000)(Note 44).

## 54. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| **Directors** | | |
| Fees | 750 | 563 |
| Other emoluments: | | |
| Salaries, bonuses and allowances received from the Group | 2,236 | 2,873 |
| Pension scheme contributed by the Group | 46 | 43 |
| Other social benefit schemes contributed by the Group | 54 | 49 |
| | 3,086 | 3,528 |
| **Chief executive** | | |
| Fees | - | - |
| Other emoluments: | | |
| Salaries, bonuses and allowances received from the Group | 341 | 341 |
| Pension scheme contributed by the Group | 15 | 14 |
| Other social benefit schemes contributed by the Group | 18 | 17 |
| | 374 | 372 |
| | 3,460 | 3,900 |

## 54. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

(a) Independent non-executive directors

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

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Dr. Lui Sun Wing | 250 | 250 |
| Mr. Jian Xunming | 250 | 208 |
| Mr. Chu Junhao | 250 | 104 |
| | 750 | 562 |

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

(b) Executive directors, non-executive directors and supervisors

Save as disclosed below, none of the executive directors, non-executive directors and supervisors of the Company received any remuneration for the year that is required to be disclosed in the financial statements pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance.

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries, bonuses and allowances received from the Group | Pension scheme contributed by the Group | Other social benefit scheme contributed by the Group | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Executive directors** | | | | | |
| Mr. Zheng Jianhua | - | 771 | 15 | 18 | 804 |
| Mr. Huang Ou | - | 694 | 15 | 18 | 727 |
| | - | 1,465 | 30 | 36 | 1,531 |
| **Supervisor** | | | | | |
| Mr. Xie Tonglun | - | 341 | 15 | 18 | 374 |
| | - | 1,806 | 45 | 54 | 1,905 |

## 54. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Fees | Salaries, bonuses and allowances received from the Group | Pension scheme contributed by the Group | Other social benefit scheme contributed by the Group | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Executive directors** | | | | | |
| Mr. Zheng Jianhua | - | 1,106 | 14 | 17 | 1,137 |
| Mr. Yu Yingui | - | 856 | 14 | 17 | 887 |
| | - | 1,962 | 28 | 34 | 2,024 |
| **Supervisor** | | | | | |
| Mr. Xie Tonglun | - | 341 | 14 | 17 | 372 |
| | - | 2,303 | 42 | 51 | 2,396 |

During the year, no director or supervisor waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.