



大众公用

DaZhong Public Utilities

股份代號：1635

Stock Code: 1635



上海大眾公用事業（集團）股份有限公司

SHANGHAI DAZHONG PUBLIC UTILITIES (GROUP) CO., LTD.

（於中華人民共和國註冊成立的股份有限公司）

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

2016年年度報告

2016 ANNUAL REPORT



2016 ANNUAL REPORT

IMPORTANT NOTICE

I. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company confirm that the contents in this annual report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.

II. Attendance of the meeting of the Board of Directors

Position of absent Director	Name of absent Director	Reason for absence	Name of proxy
Independent Director	Yan Xuehai (顏學海)	Health conditions	Cai Jianmin (蔡建民)

III. The 2016 financial report of the Company was prepared under the International Financial Reporting Standards issued by International Accounting Standards Board, for which *BDO Limited* has issued an unqualified audit report. Unless specifically indicated, Renminbi is the reporting currency in this annual report.

IV. Yang Guoping (楊國平), the person-in-charge of the Company, Zhong Jinxing (鍾晉倅), the person-in-charge of accounting department and Hu Jun (胡軍), the head of the accounting department (person-in-charge of accounting), warrant the truthfulness, accuracy and completeness of the financial report in this annual report.

V. Profit distribution plan or plan to convert surplus reserves into share capital approved by the Board during the Reporting Period

The net profit attributable to owners of the Company of 2016 amounted to RMB547,642,000. The parent company's profit after tax amounted to RMB342,759,000. According to the Company Law and the Articles of Association, the Company's distribution plan is as follows:

Based on the net profit of the parent company in 2016, a 10% statutory reserve in the amount of RMB34,276,000 is provided, with the addition of the undistributed profit carried over from 2015 in the amount of RMB384,585,000, less the distributed amount of RMB148,038,000 in 2016, the total distributable profits amounted to RMB545,030,000. Based on the total share capital of 2,952,434,675 shares as at January 9, 2017, a proposed cash dividend of RMB0.60 (tax inclusive) for every 10 shares or a total profit of RMB177,146,000 will be distributed. The undistributed portion of RMB367,884,000 shall be outstanding for distribution to the next year.

The profit distribution is expected to pay on or before July 25, 2017 and is subject to the approval at the 2016 Annual General Meeting. A further announcement will be made by the Company regarding the details and time of implementation.

VI. Risks disclaimer of the forward-looking statements

The forward-looking statements in this annual report such as future plans and development strategies do not constitute an actual commitment of the Company to investors. Investors should be aware of the investment risks.

VII. Any appropriation of fund by the controlling shareholder and its related parties for non-operating purpose?

No

VIII. Any provision of external guarantee in violation of the stipulated decision making procedure?

No

IX. Material risk alert

The report contains the description of the possible risks related to the Company. Please refer to Section headed "Management Discussion and Analysis — The Company's Discussion and Analysis on Future Development of The Company — Potential Risks".

Unless otherwise illustrated in this report, the currency for amounts herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

This report is prepared in Chinese and English, respectively, and the Chinese version shall prevail if any ambiguities arise from the understanding of the Chinese and English texts.

CONTENTS

Definitions	1
Corporate Information	6
Key Financial Indicators	7
Five-year Financial Summary	9
Management Discussion and Analysis	10
Report of the Directors	44
Significant Events	55
Changes in Share Capital and Information on Shareholders	63
Directors, Supervisors and Senior Management	72
Corporate Governance Report	86
Independent Auditor's Report	104
Consolidated Statement of Profit or Loss and Other Comprehensive Income	109
Consolidated Statement of Financial Position	111
Consolidated Statement of Changes in Equity	113
Consolidated Statement of Cash Flows	114
Notes to the Consolidated Financial Statements	116

2016

DaZhong Public Utilities

大众公用

DEFINITIONS

Unless otherwise stated in context, the following terms should have the following meanings in this report:

"2016 Final Dividend"	the final dividend of RMB0.60 per ten shares (tax inclusive) for the year ended December 31, 2016
"AGM"	annual general meeting of the Company
"Articles of Association"	the articles of association of the Company, as amended or supplemented from time to time
"A Share (s)"	domestic share(s) of our Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
"BDO"	BDO Limited
"Board"	the board of directors of the Company
"BOT"	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, construction, operation and maintenance of municipal facilities in a concession period, during which the enterprise can charge service fees to cover its costs of investment, operation and maintenance and obtain reasonable returns, while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government
"BT"	Build and Transfer, a project model whereby an enterprise undertakes the financing and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
"CG Code"	Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 of the Hong Kong Listing Rules
"China" or "PRC"	the People's Republic of China. References in this annual report to the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CNPC"	China National Petroleum Corporation* (中國石油天然氣集團公司)
"Company"	Shanghai Dazhong Public Utilities (Group) Co., Ltd.* (上海大眾公用事業(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC on January 1, 1992
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)

DEFINITIONS

“Dazhong Financial Leasing”	Shanghai Dazhong Financial Leasing Co., Ltd.* (上海大眾融資租賃有限公司)
“Dazhong Gas”	Shanghai Dazhong Gas Co., Ltd.* (上海大眾燃氣有限公司) (formerly known as South Shanghai Gas Co., Ltd.* (上海燃氣市南銷售有限公司))
“Dazhong Hong Kong”	Dazhong (Hong Kong) International Corporation Limited (大眾(香港)國際有限公司)
“Dazhong Jiading Sewage”	Shanghai Dazhong Jiading Sewage Co., Ltd.* (上海大眾嘉定污水處理有限公司)
“Dazhong Lease”	Dazhong Lease Co., Ltd.* (大眾汽車租賃有限公司)
“Dazhong Transportation”	Dazhong Transportation (Group) Co., Ltd.* (大眾交通(集團)股份有限公司)
“Director(s)”	the director(s) of the Company
“DRC”	the Development and Reform Commission (發展改革委員會) at local level in the PRC
“Group”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, refers to such subsidiaries as if they were subsidiaries of the Company at the relevant time
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

2016

DaZhong Public Utilities

大眾公用

DEFINITIONS

“H Share (s)”	overseas listed foreign share(s) in our registered share capital, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in Hong Kong dollars
“Jiangsu Dazhong Water”	Jiangsu Dazhong Water Group Co., Ltd.* (江蘇大眾水務集團有限公司)
“Latest Practicable Date”	March 29, 2017, being the latest practicable date prior to printing this annual report for ascertaining certain information contained in this report
“Listing”	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	December 5, 2016, on which the H Shares are listed on the Hong Kong Stock Exchange and from which dealings in the H Shares are permitted to take place on the Hong Kong Stock Exchange
“Minhang Dazhong Micro-credit”	Shanghai Minhang Dazhong Micro-credit Co., Ltd.* (上海閔行大眾小額貸款股份有限公司)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“Nantong Area”	Nantong urban area (includes Chongqing and Gangzha districts, Nantong Development Zone and Sutong Industrial Park) and Rudong County in Jiangsu Province, China
“Nantong Dazhong Gas”	Nantong Dazhong Gas Co., Ltd.* (南通大眾燃氣有限公司)

DEFINITIONS

“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Prospectus”	the prospectus of the Company dated November 23, 2016
“Reporting Period”	the year ended December 31, 2016
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“Selling Shareholders”	Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司) and Wuxi Coach Co., Ltd.* (無錫客運有限公司)
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Dazhong Financial Leasing”	Shanghai Dazhong Financial Leasing Co., Ltd.* (上海大眾融資租賃有限公司)
“Shanghai Dazhong Gas”	Shanghai Dazhong Gas Co., Ltd.* (上海大眾燃氣有限公司)
“Shanghai Gas Group”	Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司)
“Shanghai Stock Exchange” or “SSE”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	A Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Suchuang Gas”	Suchuang Gas Corporation Limited* (蘇創燃氣股份有限公司) (Stock Code: 1430.HK), a company listed on the Main Board of the Hong Kong Stock Exchange

2016

DaZhong Public Utilities

大众公用

DEFINITIONS

"Supervisor(s)"

the supervisor(s) of the Company

"United States" or "U.S."

the United States of America

CORPORATE INFORMATION

As at the Latest Practicable Date, details are as follows:

DIRECTORS**Executive Directors**

Mr. Yang Guoping (楊國平) (*Chairman*)
 Mr. Zhong Jinxing (鍾晉倅)
(Vice Chairman, Chief Financial Officer)
 Mr. Liang Jiawei (梁嘉瑋) (*Chief Executive Officer*)
 Ms. Yu Min (俞敏)
 Mr. Yang Jicai (楊繼才)
 Mr. Zhuang Jianhao (莊建浩)

Non-executive Director

Mr. Li Songhua (李松華)

Independent Non-executive Directors

Mr. Cai Jianmin (蔡建民)
 Mr. Chow Siu Lui (鄧小磊)
 Mr. Yan Xuehai (顏學海) (*Note 1*)
 Mr. Yao Cho Fai Andrew (姚祖輝)

SUPERVISORS

Ms. Cao Yongqin (曹永勤) (*Chairman*)
 Ms. Zhao Siyuan (趙思淵)
 Mr. Yang Weibiao (楊衛標)

JOINT COMPANY SECRETARIES

Ms. Zhao Fei (趙飛)
 Mr. Wong Yat Tung (黃日東)

AUTHORIZED REPRESENTATIVES

Mr. Liang Jiawei (梁嘉瑋)
 Mr. Wong Yat Tung (黃日東)

AUDIT COMMITTEE

Mr. Cai Jianmin (蔡建民) (*Chairman*)
 Mr. Yao Cho Fai Andrew (姚祖輝)
 Mr. Yan Xuehai (顏學海) (*Note 1*)

NOMINATION COMMITTEE

Mr. Yao Cho Fai Andrew (姚祖輝) (*Chairman*)
 Mr. Yang Guoping (楊國平)
 Mr. Cai Jianmin (蔡建民)

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Yao Cho Fai Andrew (姚祖輝) (*Chairman*)
 Mr. Yang Guoping (楊國平)
 Mr. Cai Jianmin (蔡建民)

REGISTERED OFFICE

518 Shangcheng Road
 Pudong New Area
 Shanghai
 PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

8/F, Dazhong Building
 1515 Zhongshan West Road
 Shanghai
 PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3011, Tower 6, The Gateway
 1 Canton Road
 Tsim Sha Tsui
 Hong Kong

STOCK NAME

Shanghai Dazhong Public Utilities (Group) Co., Ltd.

STOCK ABBREVIATION

DZUG

SHARE LISTING

A Share: Shanghai Stock Exchange
 Stock Code: 600635
 H Share: The Stock Exchange of Hong Kong Limited
 Stock Code: 1635

A SHARE REGISTRAR AND TRANSFER OFFICE IN THE PRC

China Securities Depository & Clearing
 Corporation Limited (CSDCC) Shanghai Branch
 China Insurance Building
 166 East Lujiazui Road
 Pudong District
 Shanghai, China

H SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited
 Shops 1712–1716, 17th Floor, Hopewell Centre
 183 Queen's Road East
 Wanchai
 Hong Kong

COMPANY'S WEBSITE

www.dzug.cn

Note 1: The Company received a resignation letter from Mr. Yan Xuehai (顏學海) resigning as an independent non-executive Director and the member of the audit committee of the Company due to his health condition on February 20, 2017. According to the Guidelines for the Establishment of Independent Directors System by Listed Companies issued by the China Securities Regulatory Commission, Mr. Yan's resignation shall not take effect until the election of a new independent non-executive Director at the general meeting of the Company.

2016

DaZhong Public Utilities

大众公用

KEY FINANCIAL INDICATORS

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE RECENT TWO YEARS

(1) Major accounting data

Unit: RMB'000

Major accounting data	2016	2015	Change compared to the corresponding period last year (%)
Operating revenue	4,568,396	4,616,595	(1.04)
Net profit attributable to equity holders of listed Company	547,642	463,800	18.08
Net cash flows from operating activities	594,708	355,167	67.44

	End of 2016	End of 2015	Change compared to the end of the corresponding period last year (%)
Net assets attributable to equity holders of listed Company	7,063,045	5,718,064	23.52
Total assets	17,009,889	14,180,566	19.95

KEY FINANCIAL INDICATORS

(2) Major financial indicators

Major financial indicators	2016	2015	Change compared to the corresponding period last year (%)
Basic earnings per share (RMB per share)	0.22	0.19	15.79
Diluted earnings per share (RMB per share)	0.22	0.19	15.79
Weighted average return on net assets (%)	8.47	8.86	decreased by 0.39 percentage point

The description of major accounting data and financial indicators of the recent two years of the Company at the end of the reporting period

The increase in the net profit of the Company attributable to the owner of the parent company less non-recurring profit and loss was mainly due to the growth in the profit of major business of the Company and the significant increase in the profit of the controlling companies. The increase in the net cash flow generated from the operation activities was mainly due to the increase in gas sales income and multi-functional prepaid card fees.

2016

DaZhong Public Utilities

大众公用

FIVE-YEAR FINANCIAL SUMMARY

(According to IFRS)

RMB'000	2012	2013	2014	2015	2016
Revenue and profit					
Revenue	3,742,206	3,929,849	4,212,557	4,616,595	4,568,396
Profit before tax	441,568	363,335	416,763	573,157	680,510
Taxation	(53,264)	(49,898)	(42,508)	(37,432)	(46,700)
Profit for the year	388,304	313,437	374,255	535,725	633,810
Attributable to:					
Owners of the Company	336,581	279,068	340,469	463,800	547,642
Non-controlling interests	51,723	34,369	33,786	71,925	86,168
Dividends	115,402	115,469	57,422	148,038	177,146
Earning per share attributable to ordinary shareholders of the parent company					
Basic					
Profit for the year (RMB)	0.14	0.11	0.14	0.19	0.22
Assets and liabilities					
Non-current assets	8,643,820	8,995,304	9,717,614	11,198,410	12,281,560
Current assets	1,743,793	1,441,724	2,215,145	2,982,156	4,728,329
Current liabilities	(2,916,312)	(2,856,154)	(3,585,647)	(4,008,239)	(5,292,242)
Net current liabilities	(1,172,519)	(1,414,430)	(1,370,502)	(1,026,083)	(563,913)
Total assets less current liabilities	7,471,301	7,580,874	8,347,112	10,172,327	11,717,647
Non-current liabilities	(2,984,241)	(2,865,842)	(3,039,644)	(3,393,141)	(3,523,225)
Net assets	4,487,060	4,715,032	5,307,468	6,779,186	8,194,422
Interests attributable to the owners of the Company	3,790,815	3,870,877	4,349,476	5,718,064	7,063,045
Non-controlling interests	696,245	844,155	957,992	1,061,122	1,131,377

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

I. Discussion and analysis of operation

2016 is a memorable year in the development history of DZUG which marked another milestone. The Company implemented the development strategy of “simultaneous development of public utility and financial investment”. With the wise leadership of the Board and the joint efforts of all staff, we carried out solid operation with focus on the working plans and targets formulated at the beginning of the year, and achieved satisfactory operating results in various sectors such as urban gas supply, urban transportation, environment and infrastructure, investment and operation of infrastructure, financial services and venture capital sector, which exceeded all expected targets for the whole year. We recorded a revenue of RMB4.57 billion and net profit of RMB630 million, which were the best operating results in our history.

In 2016, the Company carried out the following major activities:

1. As our principal business, public utility business recorded stable operation and achieved breakthrough in major projects.
 - (1) Dazhong Transportation is the business foundation of the public utility sector of the Company. In 2016, based on its strategic plan, Dazhong Transportation proactively adapted to the new normal in the development of economy and industry, made asset allocation with more competitiveness, built a more contemporary brand image and implemented more in-depth function management. Through innovation, structure optimization, risk control and progression with stable operation, Dazhong Transportation reached its intended goal as scheduled.
 - (2) Dazhong Gas is the key and difficult point for the Company in public utility sector. In 2016, with focus on “ensuring safety, seeking development, striving for economic benefits and facilitating the management”, Dazhong Gas efficiently facilitated the production safety, market expansion, revenue increase, cost reduction, technology management and other tasks. Growth rate in natural gas sector recorded significant increase during the year, and the principal business achieved satisfactory results in respect of all operation indicators.

In 2016, Nantong Dazhong Gas actively facilitated the construction of major projects, development of gas ancillary facilities, gas safety management and other key tasks, and comprehensively implemented the operation management plans.

In 2016, in order to further increase the investment proportion in gas industry, the Company, through its wholly-own subsidiary, Dazhong Hong Kong, completed the investment of certain equity interest in Suchuang Gas (stock code: 1430.hk), and became the second largest shareholder of Suchuang Gas with total shareholding of 19.76%. Such investment is the first breakthrough achieved by DZUG in public utility business since 2010, which will have positive effect on the Company’s overall profitability in gas sector.

MANAGEMENT DISCUSSION AND ANALYSIS

- (3) Dazhong Jiading Sewage recorded stable operation throughout the year. As a key project of energy saving and emission reduction in Shanghai's "12th Five-Year" plan supervised by the Ministry of Environmental Protection of the PRC, Phase III of the Jiading plant had completed the execution of BOT agreement, procedures of completion inspection and acceptance and other relevant formalities, and met the requirements of designed capacity and discharging standard. Meanwhile, the construction of sludge dehydration project was completed at the end of December 2016, and the stage target of equipment commissioning was achieved. Upon the official commencement of operation, such project will completely solve the problem of sludge disposal suffered by the Jiading plant for years.
 - (4) Concentrating on four focal points, namely, price adjustment, debt settlement, volume increase and project construction, Jiangsu Dazhong Water actively carried out team building activities, strengthened internal control, reduced the cost, enhanced the efficiency, met the discharging standard and built its corporate culture. Investment return as well as principal and interest for the whole year of the Xiaoshan wastewater treatment project were fully received on time.
 - (5) For municipal infrastructure projects funded and constructed by the Company, Xiangyin Road tunnel project operated with high efficiency and recorded stable concession income. The principal and investment return for the whole year of the south section of Wuyi Road, Paotong Road and North Square projects in Changzhou, Jiangsu were fully received on time.
2. We endeavored to advance in self-operated financial sector, and achieved development in key business with targeted efforts.
- (1) In 2016, Shanghai Dazhong Financial Leasing continued to put great efforts in major business by building business channels in various aspects, comprehensively implementing risk control, actively establishing good relationship with banking institutions and continuously exploring new business sectors, and achieved a 100% collection rate for loan principal and interest and no non-performing loan.
 - (2) In the first half of 2016, the Company acquired the 100% equity interest in Shanghai Dazhong Transportation Commerce Co., Ltd. held by Dazhong Lease, a wholly-owned subsidiary of Dazhong Transportation. After the acquisition, the Company actively carried out non-banking payment institution rating, renewal of prepaid card and payment license, certification of system technology and other relevant works.
 - (3) Minhang Dazhong Micro-credit actively established an effective risk control system and strictly complied with all operating procedures to prevent operational risk. Minhang Dazhong Micro-credit also maintained good relationship with relevant regulatory authorities during daily operation, and had not occurred any negative incidents. It also successfully passed the compliance audit performed by the regulatory authorities in 2016.
 - (4) We actively implemented post-investment management on four venture capital platforms and direct investment projects, explored various exiting channels, and completed the exit of certain projects through our efforts in 2016, which brought considerable investment return to the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

3. The internal management of the Company was further improved resulting from the continuous optimization of integrative management and control.
 - (1) In 2016, faced with the time-sensitive characteristic, wide coverage, intensive workload and numerous difficulties of H Shares issuance, the management team and staff members of the Company made concerted efforts to fight against all odds in a proactive manner. Through all these efforts, the H Shares of the Company were successfully listed on the main board of Hong Kong Stock Exchange on December 5, 2016.
 - (2) In order to satisfy the capital needs for the Company's new project investment, quality assets acquisition and daily operation, in the first half of 2016, the Company initiated the issue of debt financing instruments, and received the official approval from the National Association of Financial Market Institutional Investors for the aggregate maximum offer size of RMB4.1 billion of mid-term, shore-term and ultra-short term notes in the third quarter of the year.
 - (3) In 2016, DZUG comprehensively implemented the systematic construction of human resource management, and carried out large amount of practical works in three aspects, namely recruitment management, collective management of expatriates and informatization management.
 - (4) The Company continued to strengthen and improve the budget and final accounts as well as performance assessment. In 2016, the Company focused on improving and refining the assessment criteria, which reflected the stage task and key target point of the Company's management and control, and laid a solid foundation for the overall achievement of DZUG's target for annual operating results.
 - (5) In 2016, based on the development strategy and actual operation, the Company implemented the strategies of regulatory control, practicality and high efficiency to facilitate the Company's multi-layer and integrative informatization construction.
4. We facilitated the construction of internal control system in a practical manner and improved the management system of self-assessment on internal control.

In 2016, based on the implementation of the Manual on Internal Control Regulatory System, the Company conducted self-assessment on the design and implementation effectiveness of its internal control system, and continuously carried out internal control review through the comprehensive management and control of decision-making, implementation and supervision process. Special audits and key item audits were carried out orderly, relevant adjustment was also made to the result of assessment on the design of internal control system set out in the financial report based on the H Shares issuance.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

1. Public Utility

(1) City Gas Industry

Natural gas is a low-carbon and clean energy with abundant reserves and most of the developed countries consider natural gas as an important alternative for clean energy. The shale gas revolution in the United States significantly increases the world's estimation for natural gas reserves, and natural gas has become the most promising major energy in the world.

Xi Jinping, the General Secretary of the Communist Part of China, proposed the development strategy of "four revolutions and one cooperation", which provided clear direction for PRC's energy development, and is the PRC's basic principle for natural gas development and facilitation of reform in natural gas sector.

At the 2016 G20 summit held in Hangzhou, the PRC government has signed on the Paris Agreement, and committed to peak the carbon emission by 2030.

On December 10, 2016, the National Energy Administration and other relevant ministries and departments of the PRC jointly published the China Natural Gas Development Report (2016), which was the PRC's first white paper on natural gas development. The Report stated that, the energy development path with green, clean and low-carbon features is not only a strong protection for the sustainable development of PRC's economy and society, but also the fulfillment of PRC's solemn commitment to the world as the largest developing country, and large-scale development of natural gas will be imperative. The PRC is currently in the critical stage of energy transition with continuous emergence of new energy and new operation models as well as oil price at low level, therefore it is necessary to seize such opportunity to accelerate the PRC's natural gas development.

At present, the PRC generally formed a gas supply landscape of "gas transmission from west to east and north to south, offshore gas development and nearby supply" with diverse supply in multiple types and channels. Stable supply and scaled-up infrastructure have provided powerful support to the rapid development of PRC's natural gas industry, and the natural gas consumption market has spread across 31 provinces, municipalities and self-autonomous regions in mainland China. Meanwhile, the natural gas marketization reform is progressing in an orderly manner, and initial breakthrough was achieved in pilot reform exploration. All the factors above have laid a solid foundation for the development of natural gas into a major energy of the PRC in the future.

The continuous implementation of PRC's ecological civilization construction and the in-depth development of new industrialization and urbanization have provided a precious opportunity for the development of natural gas industry. By facilitating the energy revolution, deepening the system and mechanism reform and strengthening international cooperation, PRC will form an open, orderly competitive and contemporary system in natural gas industry with reasonable market structure, diverse resource supply, well-established storage and transportation facilities and sound and effective framework of laws and regulations, and natural gas will gradually become a major energy of the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) *Wastewater Treatment Industry*

With the rapid development of the PRC's economy, the problems of shortage of water resources and pollution of water environment are becoming more severe. In recent years, the Central and local governments attached greater importance to the environmental problems, and continuously increased the efforts in pollution treatment. The Central government has set aside RMB33.8 billion as special fund for treatment of water, soil and air pollution, among which RMB13.1 billion are special fund for water pollution prevention and treatment. The investment demand for environmental protection during the "13th Five-Year" period is approximately RMB3.4 trillion. The Ministry of Environmental Protection expected that, the PRC will invest a total of RMB1.06 trillion in wastewater treatment during the "13th Five-Year" period, accounting for nearly one third of the total amount of investment for environmental protection. Therefore, the wastewater treatment industry has become an industry with enormous market space in the whole environmental protection industry of the PRC. After entering the "13th Five-Year" period, the overall environmental protection policy is formulated with the focus on improving the environmental quality. The ecological environment quality was firstly included in the statutory criteria set out in the 13th Five-Year Plan for Ecological Environment Protection, the target for control of water environment quality was also significantly increased as compared to the 12th Five-Year Plan.

Over the years, the Central Committee of CPC, the State Council and relevant ministries and departments have formulated a series of laws, regulations, standards and policies to facilitate the development of energy-saving and environmental protection industry or promote the green development and ecological civilization construction, which provided a better and better regulatory environment for the development of environmental protection industry. After the promulgation of the strictest ever Environmental Protection Law and the Action Plan for Prevention and Treatment of Water Pollution (《水污染防治行動計劃》), vertical management system for environmental protection under provincial level, environmental tax and permits systems for discharge of pollution were also published, and all of these laws, regulations and policies have brought new opportunities for the environmental protection industry.

(3) *Urban Transportation Industry*

The construction of Shanghai's "four centers" in international economy, international finance, international shipping and international trade, the full operation of Shanghai International Tourism and Resorts Zone with Disneyland as the core, will keep the daily traffic volume and floating population of Shanghai at a relatively high level with continuous growth. As one of the supplements to public transportation, taxi is gaining more attention from the society and the public. The business demand in taxi industry will continuously increase. Meanwhile, benefiting from the improving international influence of Shanghai, more international economic and cultural activities will take place in Shanghai in the future, which will bring stimulation for the industry and boost the demand for taxi.

MANAGEMENT DISCUSSION AND ANALYSIS

New online car hailing services began to emerge in cities in China since July 2014 and experienced rapid development. Currently, China has become the largest online car hailing service market in the world. While the development of such services has brought positive effect, it also has its flip side. In July 2016, the General Office of the State Council issued the Guidelines on Further Reform and Facilitation of the Healthy Development of Taxi Industry (《關於深化改革推進出租車行業健康發展的指導意見》), meanwhile, the Ministry of Transport and other six relevant departments also jointly published the Provisional Administrative Measures on Operation of Online Taxi Hailing Services (《網絡預約出租車經營服務管理暫行辦法》), which has been implemented since November 1. These documents provided the detailed requirements for online car hailing platform operators, vehicles and drives, specified the scope of responsibility and code of practices of the online car hailing platforms as the carriers. With the implementation of these new policies, online car hailing platform operators are under higher level of regulation and supervision, which increased their operating costs, and may change the market landscape. From the end of 2016, Beijing, Shanghai, Shenzhen and Guangzhou released their respective new administrative rules of online car hailing services. The focus of these local administrative rules is on regulatory management of online car hailing services. Various compliance requirements will increase the entry barrier of the industry, thereby forcing large amount of non-compliant operators out of the market, decreasing the effective supply of online-hailing cars and leading most of the customers back to the taxi market, which will be beneficial to improving the competitive environment of the taxi market. Taxi industry is an important service provider of Shanghai, and its healthy and continuous development will be beneficial to demonstrating Shanghai as a contemporary international metropolis.

(4) Infrastructure Investment and Operation Industry

With the further development of urban transportation in the PRC, in order to improve the problem of traffic congestion in large cities, the demand for construction of cross-river tunnels, bridges and roads continuously increases, which leads to the rapid increase in construction investment as well as the number of completed tunnel projects. As such, higher management standard is required for infrastructure investment and operation. The National Development and Reform Commission, Ministry of Finance and other relevant departments have been actively promoting the model of Public Private Partnership ("PPP"), which creates larger space for future development of the infrastructure investment and operation business.

According to the fifth quarterly report of national PPP comprehensive information platform of the Ministry of Finance, as of the end of December 2016, the national PPP projects in store amounted to a total of 11,260, with the investment amount of RMB13.5 trillion, representing an increase of 61% and 66% as compared to last year, respectively. Among which, the signed and lading national PPP projects amounted to 1,351, with the investment amount of RMB2.2 trillion and a landing rate of 31.6%, representing an increase of 12 percentage points as compared to last year. The PPP model is being widely promoted and the project development is rapid.

MANAGEMENT DISCUSSION AND ANALYSIS

There are three significant problems for PPP: (1) in recent years, although PPP is rapidly developing, but the PPP supporting laws and regulations and policy systems are not perfect. The regulation documents for PPP were issued by NDRC and Ministry of Finance in conjunction with other relevant ministries with limited authority; (2) In January and December 2015, NDRC and Ministry of Finance issued Infrastructure and Public Utilities Franchise Law of PRC and Government and Social Capital Partnership Law, respectively. These two departments have their own PPP projects in store, where the practice operation, standard and process of projects are difficult to unify. (3) Social capital security is not strong. The government is more likely having wishful thinking. There were illegal financing, government repurchase and buying debts as shares under the disguise of PPP projects. Besides, PPP requires more for the social capital, which makes the social capital lose control of investment, construction and operation, and therefore greatly reduce its efficiency. The industry demands a governing law and regulation of PPP projects on a higher level.

In March 2017, the General Office of the State Council issued 2017 Legislative Work Plan of State Council. In terms of legal project establishment urgently required for the overall deepened reforms, the regulations of introduction of social capital for infrastructure and public service projects are included, which will be drafted by the State Council Legislative Affairs Office, NDRC and Ministry of Finance. According to the reform process and reform plans, the drafting and review will be proceeded with special focus and finished as soon as possible. The PPP regulations are expected to be released in 2017. With the continuous improvement of the top design, the social capital can ease their worries, which will encourage social capital to boldly invest. At the same time, with the innovation and improvement of PPP asset securitization and other market-oriented financial instruments, PPP project landing progress can be further accelerated.

2. Financial Investment Industry

(1) *Financial Service Industry*

Since 2006, the PRC's finance leasing industry experienced rapid growth and developed into three major segments, namely financial leasing, domestic-funded leasing and foreign-funded leasing. Currently, the PRC's finance leasing industry is primarily operated under the sale-leaseback model, which is similar to secured bank loans. The demand from customers increased during the economic downturn, and the industry showed a counter-cyclical development trend. With the large market in PRC's finance leasing industry, the 13th Five-Year Plan proposed that, the efficiency of financial industry's support to physical economy shall be enhanced, and as a link between capital and physical industry, finance leasing will be a major beneficiary. In addition, the structural transition of private financing also provides a development opportunity for non-banking financing channel.

Micro-credit companies support the SMEs and individual business owners in agricultural, industrial and commercial industries, which are seldom offered with traditional banking credit support, by providing convenient, flexible and quick financing and relevant services required for production operation and startup development at interest rates significantly lower than the private loans with high interests. The PRC's micro-credit companies perform the basic function of inclusive financial system. Under strict risk control, micro-credit companies compete in the market with their unique advantages of flexibility, convenience and diversity.

MANAGEMENT DISCUSSION AND ANALYSIS

According to relevant statistics, PRC's third-party payment transactions experienced rapid growth in 2016, and no new Payment Services License was issued by the PBOC since January 2016, which created a great potential for the development of third-party payment services, especially the online mobile payment services.

The richness of value-added services will become the core competitiveness of third-party payment companies. Launches of regulatory regulations will gradually increase the reshuffle speed for the industry. Payment companies, through the user and business coverage, accumulated massive transaction data. In the future, it will be more important for the third-party payment enterprises to mine and apply its own data, which will introduce breakthrough in profitability, such as Internet marketing, credit checking and other value-added services.

(2) *Venture Capital Industry*

In 2016, the PRC's economy was in the transition period in respect of the growth rate, supply side reform and state-owned enterprises reform continued to deepen, traditional industries explored the road of transformation and upgrade, emerging industries continuously innovated and developed, and the regulation on capital market became more stringent. Despite the shrinking financial demand, the PRC's equity investment market maintained vibrant operation, total amount of fund raised and total investment for the year recorded new heights, investment institutions made large investment in enterprises they considered with great potential and profitability. Meanwhile, the government encouraged the fund companies, insurance companies and banks to invest in equity investment market, and more investors wished to share the "cake" of equity investment. In addition, industry regulation became more stringent, the Asset Management Association of China implemented the registration management system for private equity funds to strengthen the self regulatory management of private equity fund industry.

FINANCIAL REVIEW

Major operation during the Reporting Period

As at December 31, 2016, the Group's total assets amounted to RMB17,010 million, representing an increase of RMB2,830 million as compared to that at the beginning of the year. Among which, current assets amounted to RMB4,730 million, representing an increase of RMB1,750 million as compared to that at the beginning of the year, and accounted for 27.80% of the total assets, representing an increase of 6.77% as compared to 21.03% at the beginning of the year. Non-current assets amounted to RMB12,280 million, increased by RMB1,080 million from RMB11,200 million at the beginning of the year, and accounted for 72.20% of the total assets, representing a decrease of 6.77% as compared to 78.97% at the beginning of the year.

As at December 31, 2016, the Group's total liabilities amounted to RMB8,820 million, representing an increase of RMB1,410 million as compared to that at the beginning of the year. The gearing ratio was 51.85%, which was basically the same as 52.26% at the beginning of the year. Guarantees for controlled subsidiaries amounted to RMB2,500 million, accounted for 30.53% of the Company's net assets. In particular, current liabilities amounted to RMB5,290 million, representing an increase of RMB1,280 million as compared to that at the beginning of the year. The Company has stable debt ratio and repayment ability.

In 2016, the Group's return on net assets was 8.47%, representing a decrease of 0.39 percentage point as compared to 8.86% for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, the Group recorded a total revenue of RMB4,570 million, which was basically the same as RMB4,620 million for the corresponding period of last year. The consolidated profit before tax, consolidated net profit and net profit attributable to the owner of the parent amounted to RMB680 million, RMB630 million and RMB550 million, respectively, representing an increase of 19.30%, 16.67% and 19.57%, respectively, as compared to the corresponding period of last year.

REVENUE

The Group's revenue decreased by 1.08% on a year-on-year basis from RMB4.62 billion for the year ended December 31, 2015 to RMB4.57 billion for the year ended December 31, 2016. Revenue contribution from the four segments remained relatively stable in the periods.

Piped gas supply

Revenue generated from piped gas supply operations decreased by 2.66% from RMB4,359.7 million for the year ended December 31, 2015 to RMB4,243.6 million for the year ended December 31, 2016. The decrease was primarily attributable to the decrease in revenue from pipeline construction and adjustment of the retail price of piped gas. Revenue generated from piped gas supply operations was 94.44% and 92.89% of the Group's total revenue for the year ended December 31, 2015 and 2016, respectively.

Wastewater treatment

Revenue generated from wastewater treatment operations increased by 20.09% from RMB148.3 million for the year ended December 31, 2015 to RMB178.1 million for the year ended December 31, 2016. The increase was primarily due to the increase in revenue from operation of Phase III of the Jiading sewage plant. Revenue generated from wastewater treatment operations was 3.21% and 3.90% of the Group's total revenue for the year ended December 31, 2015 and 2016, respectively.

Public infrastructure projects

Revenue generated from public infrastructure projects decreased by 4.48% from RMB58.1 million for the year ended December 31, 2015 to RMB55.5 million for the year ended December 31, 2016, which was mainly due to the decrease in financial revenue resulting from the decrease in the principal received every year in accordance with the contracts. Revenue generated from public infrastructure projects was 1.26% and 1.21% of the Group's total revenue for the year ended December 31, 2015 and 2016, respectively.

Financial services

Revenue from interest income in our micro-credit business decreased by 21.03% from RMB29.0 million for the year ended December 31, 2015 to RMB22.9 million for the year ended December 31, 2016, primarily due to the decrease in loans with great risks for risk control.

Revenue from financial leasing business increased by 217.67% from RMB21.5 million for the year ended December 31, 2015 to RMB68.3 million for the year ended December 31, 2016, primarily due to expansion in financial leasing business.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit increased by 1.44% from RMB729.6 million for the year ended December 31, 2015 to RMB740.1 million for the year ended December 31, 2016. Gross profit of piped gas supply operations decreased by 6.11% from RMB544.7 million for the year ended December 31, 2015 to RMB511.4 million for the year ended December 31, 2016. Gross profit margin for piped gas supply decreased from 12.49% for the year ended December 31, 2015 to 12.05% for the year ended December 31, 2016. The decreases in gross profit and gross profit margin of piped gas supply operations during the Reporting Period were primarily due to the decrease in retail price of piped gas for non-residential end users in Shanghai and Nantong Area.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by 17.11% from RMB143.2 million for the year ended December 31, 2015 to RMB167.7 million for the year ended December 31, 2016. The increase was primarily due to the increase in maintenance fee resulting from the changes of natural gas sales pipeline network.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 6.41% from RMB354.3 million for the year ended December 31, 2015 to RMB377.0 million for the year ended December 31, 2016. The increase was primarily due to the increase in relevant expenses for issuance of H Shares.

NET INVESTMENT INCOME AND GAINS

Net investment income and gains increased by 54.09% from RMB72.1 million for the year ended December 31, 2015 to RMB111.1 million for the year ended December 31, 2016. The increase was primarily attributable to profit allocation from Chinese Culture Investment.

SHARE OF RESULTS OF ASSOCIATES

Share of results of associates increased by 90.51% from RMB263.3 million for the year ended December 31, 2015 to RMB501.6 million for the year ended December 31, 2016, primarily due to the ideal performance of associates and contribution of newly invested company Suchuang Gas.

PROFIT BEFORE TAX

As a result of above, profit before tax increased by 18.72% from RMB573.2 million for the year ended December 31, 2015 to RMB680.5 million for the year ended December 31, 2016.

NET PROFIT

As a result of above, net profit increased by 18.31% from RMB535.7 million for the year ended December 31, 2015 to RMB633.8 million for the year ended December 31, 2016.

OTHER COMPREHENSIVE INCOME

The Group recorded an increase of RMB952.2 million and a decrease of RMB273.0 million in terms of share of other comprehensive income of associates for the year ended December 31, 2015 and 2016, respectively. The decreases were primarily due to the decrease in total fair value of publicly listed companies of our associate investments.

The Group recorded an increase of RMB43.6 million and a decrease of RMB62.9 million in change in fair value of available-for-sale financial assets for the year ended December 31, 2015 and 2016, respectively. The decrease were primarily due to the decrease in price of the listed investment portfolio (included in available-for-sale financial assets) we invested.

MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL COMPREHENSIVE INCOME

As a result, our total comprehensive income decreased by 80.67% from RMB1,533.6 million for the year ended December 31, 2015 to RMB296.5 million for the year ended December 31, 2016.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Overview

The Group finances its liquidity requirements primarily through cash flow generated from operating activities and proceeds from interest-bearing bank loans, debt instruments and other borrowings. Its primary uses of cash include capital expenditures on property, plant and equipment, its financial investments and servicing indebtedness.

The table below sets out the analysis of assets and liabilities of the Group as at the end of the Reporting Period:

Unit: RMB'000

Item	2016	2015	Change	Change (%)	Reason
Intangible assets	361,496	183,542	177,954	96.96	Increase in concession rights of Phase III of Jiading plant
Lease receivables	615,247	340,144	275,103	80.88	Financial lease receivables
Prepayments and other receivables	77,227	178,933	(101,706)	(56.84)	Transfer out of prepaid expenses of H Shares
Financial assets at fair value through profit or loss	74,103	106,333	(32,230)	(30.31)	Decrease in price of listed investment portfolio invested (included in available-for-sale financial assets)
Available-for-sale financial assets	160,000	85,000	75,000	88.24	Decrease in price of listed investment portfolio invested (included in available-for-sale financial assets)
Pledged deposits	159,000	3,397	155,603	4,580.60	Increase in pledged borrowings, details as set out in note 36 and 37
Cash and cash equivalents	3,258,733	1,549,655	1,709,078	110.29	Increase in currency capital resulting from issuance of H Shares
Other payables	1,272,939	840,661	432,278	51.42	Increase in the expenses of issuance of H Shares and outstanding payables of reduction of social insurance
Investment income and gains, net	111,126	72,081	39,045	54.17	Dividend income obtained by Chinese Culture Investment
Share of results of associates	501,613	263,326	238,287	90.49	Increase in results of associates
Share of other comprehensive income of associates	(273,009)	952,240	(1,225,249)	(128.67)	Decrease in total fair value of publicly listed companies of our associate investments
Change in fair value of available-for-sale financial assets	(62,941)	43,618	(106,559)	(244.30)	Decrease in price of listed investment portfolio invested (included in available-for-sale financial assets)
Exchange differences on translating foreign operations	(728)	6,816	(7,544)	(110.68)	
Re-measurement gains/(losses) on defined benefit obligations	558	(4,802)	5,360	111.62	Increase in temporary investment income

MANAGEMENT DISCUSSION AND ANALYSIS

Item	2016	2015	Change	Change (%)	Reason
Net cash flows generated from operating activities	594,708	355,167	239,541	67.44	Increase in the cash inflow from gas business and multi-functional prepaid card fees
Net cash flows used in investing activities	(619,827)	(902,157)	282,330	31.29	Recovery of bidding deposits and increase in investment income
Net cash flows generated from financing activities	1,716,112	562,159	1,153,953	205.27	Proceeds from issuance of ordinary shares

Bank Borrowings

As of December 31, 2016, the Group had total bank borrowings of approximately RMB2,322.8 million, which increased by 19.95% from RMB1,936.4 million as of December 31, 2015, mainly due to the increase in loan capital for utilities expansion and increase in financial leasing business.

As of December 31, 2016, out of the total bank borrowings of the Group, RMB1,956.0 million was denominated in Renminbi, RMB351.9 million was denominated in US dollar, and RMB14.9 million was denominated in HKD.

The Group's long-term interest-bearing borrowings and short-term interest-bearing borrowings as of December 31, 2016 were RMB378.2 million and RMB1,944.6 million, respectively. The following table sets forth the maturity profile of the loans repayable of the Group as of December 31, 2015 and December 31, 2016:

Unit: RMB million

	December 31, 2016	December 31, 2015
Within one year	1,944.6	1,497.7
One to two years	145.1	217.0
Two to five years	233.1	221.7
Over five years	—	—
Total	2,322.8	1,936.4

As of December 31, 2016, the Group's total interest-bearing bank and other borrowings at floating interest rate amounted to RMB1,245.7 million, as compared to RMB1,438.1 million as of December 31, 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Bonds and Notes

As approved by China Securities Regulatory Commission document [2011] No. 2079, the Company issued unsecured domestic corporate bonds listed on the Shanghai Stock Exchange, with an aggregate principal amount of RMB1.6 billion on January 6, 2012. The bonds mature in six years and bear interest at a benchmark interest rate (based on Shanghai Interbank Offered Rate) plus an interest margin of 2.95% per annum, payable on a semi-annual basis. The outstanding amount of such corporate bonds was RMB1,590.5 million and RMB1,595.1 million as of December 31, 2015 and 2016, respectively.

As of December 31, 2016, the Group issued ultra-short-term notes with an aggregate principal amount of RMB300 million, which were interest-bearing at fixed interest rate.

Gearing Ratio⁽¹⁾

As of December 31, 2016, the Group's gearing ratio was 51.8%, representing an decrease of 0.4 percentage point from 52.2% as of December 31, 2015.

Pledged Assets

As of December 31, 2016, an aggregate amount of RMB551.8 million bank borrowings (as of December 31, 2015: RMB320.7 million) were secured by the Group's assets, including (i) financial receivables in connection with our public infrastructure projects, (ii) available-for-sale financial assets, investment in associates and financial assets at fair value through profit or loss, and (iii) 72 million shares of Dazhong Transportation Group and pledged deposits. For details, please refer to note 37 to the financial statements in this annual report.

Commitments

Operating leases — leasee

Except for the prepaid premium for land leases, the Group leases certain of our land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 1 to 15 years. The table below sets forth the total future minimum lease payments under non-cancellable operating leases in which the Group is a leasee as of the indicated dates:

Unit: RMB '000

	December 31, 2016	December 31, 2015
Within one year	694	4,801
In the second to fifth year	2,980	2,909
After the fifth year	5,899	6,664
Total	9,573	14,374

⁽¹⁾ Gearing ratio is calculated by total debt divided by total equity at the end of the Reporting Period and multiplied by 100%. Total debt is defined as payables incurred not in the ordinary course of business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

(I) THE BOARD OF DIRECTORS DISCUSSED AND ANALYZED THE OPERATION OF THE GROUP DURING THE REPORTING PERIOD

A. ANALYSIS ON CORE BUSINESSES

— DETAILS OF THE COMPANY'S PRINCIPAL BUSINESS, BUSINESS MODEL AND MAJOR PERFORMANCE DRIVERS:

The Company is principally engaged in public utility and financial investment businesses, which are the two major sources of profit of the Company. In particular, public utility business includes (i) city gas, (2) wastewater treatment, (3) urban transportation, and (4) infrastructure investment and operation, and financial investment business includes (1) financial services and (2) venture capital business. During the reporting period, there was no material change in the Company's principal business.

1. **Public Utility:**

- (1) **City gas:** The gas companies under the Company are principally engaged in provision of piped gas and related services. The Company procures gas from the upstream natural gas production and sales companies, sells the gas to residential, commercial and industrial end users through its proprietary urban gas pipeline network, and also provides relevant distribution services. Meanwhile, the Company provides new users with extended services such as gas installation, installation of pipeline connected to the gas meter reader and relocation. Currently, the Company is the sole supplier of piped natural gas in the South Puxi Area and also the dominant supplier of natural gas in Nantong urban area in Jiangsu Province. The Company also entered the Songjiang District and Fengxian District in Shanghai by way of equity investment, and made equity investment in Suchuang Gas (stock code: 1430.HK) in 2016 to expand its business to Taicang, Jiangsu Province.

Major performance drivers: City gas business is affected by the adjustment to gas price, the number of users and amount of natural gas consumed. Urbanization and clean energy strategy will further facilitate the replacement of coal with natural gas, thereby further increasing the natural gas usage. The strengthened regulation on the transportation price of piped gas by the National Development and Reform Commission will provide powerful support and policy to the marketization reform of natural gas price.

- (2) **Wastewater treatment:** The Company operates wastewater treatment plants with high operation efficiency in various areas of the Yangtze River Delta. All wastewater treatment plants adopt matured wastewater treatment process in China, which can basically satisfy the existing requirements and standards of treated water discharge. At the end of the reporting period, the Company has six large wastewater treatment plants and four small urban wastewater treatment plants in Shanghai, Xuzhou and Lianyungang in Jiangsu Province with total designed capacity of 355,000 cubic meters per day. The wastewater treatment companies conduct wastewater treatment business pursuant to the concession agreement entered into with local governments where the governments procure wastewater treatment services from the Company during the concession period. In addition, the Company has invested in a wastewater treatment company in Xiaoshan District, Hangzhou, Zhejiang Province under a BT arrangement, and gains investment return through the receipt of ongoing special subsidy by such company.

MANAGEMENT DISCUSSION AND ANALYSIS

Major performance drivers: With the continuing urbanization, continuous increase of urban population and continuous enhancement of environmental protection standards, all wastewater treatment plants continuously carry out renovation in response to the government's requirements, and actively increase their capacity to gradually expand the existing business scale and create space for the upward adjustment of price.

- (3) **Urban transportation:** Dazhong Transportation (stock code: 600611.SH) under the Company is the largest provider of comprehensive transportation services in Shanghai and Yangtze River Delta area, owns a total of approximately 15,000 vehicles including taxis, rental cars, logistics trucks and tourism buses, and provides comprehensive transportation and ancillary services such as taxi, car rental, service, logistics and tourism through Dazhong Taxi and Dazhong Leasing Car. In response to the effects of internet model on traditional taxi industry, leveraging on the advantage of Dazhong brand, Dazhong Transportation launched the "Dazhong Chuxing" platform at the end of March 2016 to provide regular online car hailing services.

Major performance drivers: The Company put great efforts in the development of corporate car rental segment in urban transportation business, actively explored the "+ Internet" model in traditional taxi industry, and became the first taxi company in China which obtained the legal and compliant qualification for operation of online car hailing platform, so as to improve its ability in provision of comprehensive urban transportation services.

- (4) **Infrastructure investment and operation:** The Company conducts infrastructure investment, construction and operation under BOT and BT arrangements in Shanghai and Changzhou, Jiangsu Province. In particular, the Xiangyin Road tunnel in Shanghai invested, constructed and operated by the Company under BOT arrangement is a tunnel across Huangpu River in the north of Zhonghuan Road, Shanghai. During the concession period, the Shanghai government provides ongoing special subsidy to the Company as investment payback and return, and the Company provides operation maintenance and protection services. In addition, the Company invested in the urban main road renovation and expansion projects of Changjiao Road and Paotong Road in Changzhou, Jiangsu Province under BT arrangements, and received investment payback and return from the ongoing operation subsidy granted by the local government.

Major performance drivers: The Company further increases its revenue through continuous improvement of tunnel operation management standard to seek new infrastructure investment projects.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Financial investment*

- (1) **Financial services:** This segment includes finance leasing companies, micro-credit companies and Dazhong Commerce third party payment platform wholly owned or majority owned by the Company and certain securities companies and banks of which the Company owns equity interest. In particular, finance leasing companies endeavor to provide personalized finance leasing solutions and value-added services to the customers, and provide comprehensive financing solutions to the customers by way of direct financial leasing and sale-leaseback. Micro-credit companies are principally engaged in provision of micro-credit services to corporate customers such as SMEs. Dazhong Commerce is engaged in issue of "Dazhong e-Card (大眾e通卡)", which is a multi-functional prepaid card approved by the PBOC covering various sectors such as supermarket, department stores, food and beverage, entertainment and car services. The card can be also used for payment of public utility fees, mobile phone card top up and shopping online.

Major performance drivers: The Company continuously improves the financial service standards, identifies quality customers and increase the registered capital to improve its profitability.

- (2) **Venture capital business:** The Company has five venture capital platforms, including Dazhong Capital and Dazhong Asset Management wholly owned by the Company as well as Shenzhen Capital Group, Hangxin Investment and Xingye Venture Capital in which the Company owns majority interest. The senior management of the Company serve as the chairman, vice chairman and members of investment decision-making committee of all venture capital platforms with deep involvement in the venture capital business. The Company receives profit distribution from the platform companies through the management of venture capital funds by the platforms as well as the exit of projects directly invested by the platforms. In addition, the Company also participated in quality private funds, invested in China Media Capital (the first culture fund registered with the National Development and Reform Commission in China) as a major LP, and invested in a segregated portfolio of New China Innovation Fund (a US dollar denominated fund) at the beginning of 2017. Meanwhile, leveraged on its ability in project identification, follow-up investment and post-investment management, the Company also directly invested in certain projects with potential, among which Songz Automobile Air Conditioning Co., Ltd. and Shanghai M&G Stationery Inc. were listed.

Major performance drivers: The Company increases the revenue from venture capital business by strengthening the investment, management and exit ability of platform companies and funds, meanwhile enhancing the ability of its internal investment team and optimizing the systems to improve the profitability of direct investment business.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Analysis on Industry Operating Information

1. City Gas Industry

- (1) Since September 1, 2014, the natural gas price for residential users in Shanghai was adjusted to RMB3.00 per cubic meter (for households with annual gas consumption of 310 cubic meters or below), representing an increase of 20%, and the tiered gas pricing system was also implemented. Since December 1, 2015, the selling (benchmark) prices of natural gas for non-residential users decreased by RMB0.42 per cubic meter. Meanwhile, the existing upstream and downstream linked selling price mechanism was amended and improved, and the price adjustment cycle was shortened from one year to six months. The pricing standard was as follows:

Item	Annual consumption (m ³)	Price standard (RMB)	Pricing basis
Pipeline natural gas for residential use (one meter reader for one household)	0 to 310 (inclusive)	3.00	Competent municipal pricing authorities
	310 to 520 (inclusive)	3.30	
	Over 520	4.20	
Non-residential users (schools, welfare institutions, elderly homes, etc.)		3.05	
Industrial users supplied by city gas companies	Over 5,000,000	3.57	Hu Jia Guan (2015) No.11
	1,200,000 to 5,000,000	4.07	
	Below 1,200,000	4.37	
Commercial users supplied by city gas companies	Over 5,000,000	3.17	
	1,200,000 to 5,000,000	3.67	
	Below 1,200,000	3.97	

MANAGEMENT DISCUSSION AND ANALYSIS

- (2) Since January 1, 2016, tiered pricing system was implemented for the pipeline natural gas for residential users in Nantong urban area. Meanwhile, the linked selling price mechanism was also implemented for the pipeline natural gas for residential users in Nantong urban area, under which when the cumulative degree of change in prices in adjustments to the prices of upstream natural gas gateway stations reaches or exceeds 5%, adjustments will be made in the same direction as the degree of change in prices to the selling prices of pipeline natural gas used by residential consumers, and the linked movement cycle is no less than six months. The pricing standard was as follows:

Item	Annual consumption (m ³)	Price standard (RMB)	Pricing basis
Residential users	0 to 300	2.4	Tong Jia Xing [2015] No. 181 provided that, for family household of more than four people, for every additional person in a household, the annual base number for gas consumption will be increased by 75 cubic meters.
	300 to 600	2.8	
	Over 600	3.6	
Schools, kindergartens, elderly homes, welfare institutions, community public facilities		2.4	Tong Jia Xing [2015] No. 181
Natural gas for vehicle use		3.9	Tong Jia Xing [2015] No. 203
Natural gas for coal fired boiler modification		3.1	Tong Jia Xing [2015] No. 202
Non-residential users		3.36	

- (3) On February 28, 2015, the National Development and Reform Commission issued the notice on management of natural gas price for non-residential use, which provided that, from 1 April, the maximum gateway station price of incremental gas in all provinces shall decrease by RMB0.44 per cubic meter, and the maximum gateway station price of inventoried gas shall increase by RMB0.04 per cubic meter, so as to achieve standardization of price of incremental gas and inventoried gas.
- (4) On November 18, 2015, the National Development and Reform Commission issued another notice to decrease the standardized maximum gateway station price of gas for non-residential use by RMB0.7 per cubic meter and replace the maximum gateway station price management with standard gateway station price management for non-residential use gas, which further facilitated the marketization of natural gas price.

MANAGEMENT DISCUSSION AND ANALYSIS

- (5) In October 2015, the Central Committee of the CPC and the State Council issued the Certain Opinions on Promoting the Price Mechanism Reform (《關於推進價格機制改革的若干意見》) to expressly require to standardize the natural gas price as soon as possible. Since then, the National Development and Reform Commission issued a series of policies and notices on natural gas price reform in 2016, which significantly accelerated the progress of natural gas reform. The Administrative Measures on Transportation Price of Piped Natural Gas (trial) (《天然氣管道運輸價格管理辦法(試行)》), the Measures on Supervision and Approval of Price and Cost of Piped Natural Gas Transportation (trial) (《天然氣管道運輸定價成本監審辦法(試行)》), the Notice on Disclosure of Information Related to Oil and Gas Pipeline Network Facilities (《關於做好油氣管網設施開發相關信息公開工作的通知》), the Notice on Determining the Price of Gas Storage Facilities (《關於明確儲氣設施相關價格政策的通知》), the Notice on Preparation for Peak Consumption of Natural Gas in Winter in 2016 (《關於做好2016年天然氣迎峰度冬工作的通知》) and the Notice on Facilitating the Marketization Reform of Natural Gas Price for Fertilizer Producers (《關於推進化肥用氣價格市場化改革的通知》) issued by the National Development and Reform Commission provided new regulations on the price of pipeline transportation, required natural gas pipeline enterprises to disclose the costs, facilitated the further marketization of pipeline transportation price, and laid a foundation for the marketization reform of “controlling the middle and loosening the two ends” and “third-party access”. As one of the seven sectors that firstly carried out public-private-partnership reform, natural gas industry considered “pipeline network independence” as one of the key task in natural gas marketization reform. The PRC put ongoing efforts in strengthening the regulation of natural gas pipeline transportation price to pave the path for achieving natural gas price marketization. Subsequent reform will be implemented gradually, and pilot projects of natural gas system reform may be carried out in Chongqing, Jiangsu, Shanghai, Hebei and other provinces and cities, which will accelerate the progress of marketization in natural gas industry.

2. Wastewater Treatment Industry

- (1) According to the relevant requirements of Guo Jia Cai Shui [2015] No. 78, from July 2015, wastewater treatment industry shall be subject to value-added tax with preferential treatment of 70% tax return. As such, the wastewater treatment business will be affected by the unfavourable factors of increase in tax.
- (2) According to relevant national requirements, from July 1, 2016, newly constructed urban wastewater treatment plants shall be subject to the Class IA standard, and all existing urban wastewater treatment plants shall be subject to the Class IA standard from January 1, 2018. With the implementation of more stringent national environmental protection policies, the environmental protection authorities increased the efforts in law enforcement and proposed higher requirements for the wastewater discharge standards, which posed a tight schedule task for wastewater treatment plants in respect of standard enhancement and upgrade.
- (3) From January 1, 2017, many cities in the PRC began to make upward adjustment to the wastewater treatment fee, among which, the treatment fee increased by 34% to 137% for residential use water and 44% to 75% for non-residential use water. There is still plenty of room for increase of PRC's water price as compared to foreign countries, such upward adjustment of wastewater treatment fee in many cities reflected the future trend of water price, and the profit from wastewater treatment sector is expected to increase.

MANAGEMENT DISCUSSION AND ANALYSIS

3. *Urban Transportation Industry*

On January 11, 2017, over 50 major taxi enterprises in China and certain regional industry associations entered into a strategic cooperation agreement in Shanghai to establish the China Taxi Industry Alliance, which is a long-term strategic cooperation in PRC's taxi industry. The purpose of establishment of the alliance is to put the Guidelines on Further Reform and Facilitation of the Healthy Development of Taxi Industry (《關於深化改革推進出租車行業健康發展的指導意見》) (Circular No. 58 of the General Office of the State Council in 2016) into practice, actively respond to the overall planning of comprehensive implementation of in-depth reform of the industry, facilitate the reform of traditional taxi industry, encourage the innovative development of the industry, promote the upgrade and transformation of the industry and provide better services to satisfy the transportation demand of passengers. The alliance will endeavor to integrate the upstream and downstream of taxi industry in the future and provide a multi-dimensional platform for cooperation and communication. In addition to taxi enterprises, enterprises related to taxi industry such as vehicle manufacturers, financial service enterprises, internal enterprises, car equipment enterprises and car maintenance enterprises will also be invited to join the alliance, so as to fully achieve sharing of resources, information and results and jointly facilitate the cooperation and development of the industry.

4. *Infrastructure Investment and Operation Industry*

With the development of Shanghai in recent years, in order to enhance the urban public space quality and promote the city renewal, the Shanghai government promulgated Shanghai Urban Redevelopment Plans (《上海市城市更新實施辦法》) in 2015, which mandates, among other things, district government to take measures to further improve public service facilities and urban infrastructure in Shanghai.

5. *Financial Service Industry*

- (1) In recent years, with the encouragement from national and local policies, the environment of finance leasing industry was continuously improved, which attracted large amount of investment, and stimulated the continuous increase in number of finance leasing companies, showing a trend of rapid growth in the scale of industry. As of the end of 2016, there were a total of 7,120 finance leasing companies in the PRC, representing an increase of 2,612 companies as compared to the end of 2015. The balance of finance leasing contracts in the PRC amounted to RMB5.33 trillion, representing an increase of approximately RMB0.89 trillion as compared to RMB4.44 trillion at the end of 2015. In 2016, despite the increased downward pressure in PRC's economic growth, finance leasing industry continued to grow at a rapid pace.
- (2) According to the statistics of the PBOC, as of the end of 2016, there were a total of 8,673 micro-credit companies in the PRC with registered capital of RMB823.39 billion and loan balance of RMB927.28 billion, and the amount of RMB loans decreased by RMB13.1 billion in 2016. After 2013, the micro-credit companies grew at a slower pace with downward trend seen in number of institutions, amount of registered capital and loan balance. This showed a significant slowdown in the growth of micro-credit industry. During the last two years, with the increased downward pressure in the economy and intensified market competition, micro-credit companies operated in a more challenging environment as compared to last few years. Moreover, the major customers of micro-credit industry are farmers in rural areas, individual business owners and small and micro enterprises with weak capital strength, poor repayment ability and susceptibility to economic fluctuation, which brought relatively material impact to the operation of micro-credit companies.

MANAGEMENT DISCUSSION AND ANALYSIS

- (3) In 2016, the transaction size of third-party online payment market showed a quarterly growth, with the scale reaching RMB46,500 million, representing an increase of 6.5% as compared to last quarter. The Internet payment industry maintains a stable pattern. In terms of market transaction shares, Alipay, TenPay and CUP business still rank as the top three, while Alipay topped the list with a market share of 43.39%.

6. Financial Investment Industry

In 2016, there were a total of 3,683 investment transactions in PRC's venture capital market, representing a slight increase of 6.9% as compared to last year. In particular, 3,419 investment transactions with disclosed investment amount were involved in a total amount of RMB131.257 billion, only RMB1.923 billion more than 2015. The average investment size for all disclosed investment transactions amounted to RMB38,390,400. In 2016, the PRC's venture capital market remained to be active, but the average investment amount recorded decrease. In 2016, PRC's venture capital institutions emphasized more on value investment, and startups also became more reasonable and matured and paid more attention to the internal development of enterprises, therefore, most of the projects were valued within a reasonable range.

B. ANALYSIS ON EQUITY INVESTMENTS

(V) Investment Analysis

1. Overall Analysis of External Equity Investment

(1) Material Equity Investment

Name of major investee	Principal activities	Total shareholding in investee at the end of the reporting period (%)	Investment amount during the reporting period ('0000)
Shanghai Dazhong Transportation Commerce Co., Ltd.	Business consultation	100	RMB9,811.41
Shanghai Dazhong Gas Investment Development Co., Ltd.	Gas investment	100	RMB3,053.00
Suchuang Gas Corporation Limited	Gas supply	19.76	HK\$41,822.10

1. On March 23, 2016, the Company and Dazhong Lease Co., Ltd. (a wholly-owned subsidiary of Dazhong Transportation (Group) Co., Ltd.) entered into the Shanghai Property Transaction Contract (《上海市產權交易合同》) in Shanghai, pursuant to which, the Company acquired the 100% equity interest in Shanghai Dazhong Transportation Commerce Co., Ltd. held by Dazhong Lease Co., Ltd. According to the Asset Valuation Report with the base date of December 31, 2015 issued by Shanghai Cai Rui Asset Valuation Company Limited, the acquisition consideration was RMB98,114,100.

MANAGEMENT DISCUSSION AND ANALYSIS

2. On April 28, 2016, the Company and Shanghai Dazhong Business Management Co., Ltd. entered into the Equity Transfer Agreement (《股權轉讓協議》) in Shanghai, pursuant to which, the Company acquired 6.63% equity interest in Shanghai Dazhong Gas Investment Developing Co., Ltd. held by Shanghai Dazhong Business Management Co., Ltd. According to the Corporate Valuation Report with the base date of June 30, 2015 issued by Shanghai Orient Appraisal Co., Ltd, the acquisition consideration was RMB30,530,000.
3. On May 10, 2016, Dazhong (Hong Kong) International Corporation Limited (a subsidiary of the Company) and Greenland Financial Overseas Investment Group Co., Ltd. entered into the Share Acquisition Agreement (《股份購買協議》), pursuant to which, Dazhong Hong Kong acquired 37,258,000 shares (representing 4.5% of the total share capital) in Suchuang Gas held by Green Financial at a consideration of HK\$89,046,620 or its US dollar equivalent.
4. On May 27, 2016, Dazhong (Hong Kong) International Corporation Limited (a wholly-owned subsidiary of the Company) entered into the Share Acquisition Agreement (《股份購買協議》) with Fung Yu Holdings Limited and the Share Subscription Agreement (《股份認購協議》) with Suchuang Gas Corporation Limited, pursuant to which, Dazhong Hong Kong acquired 96,800,000 shares (representing 11.7% of the total share capital) in Suchuang Gas held by Fung Yu Holdings Limited at a consideration of HK\$246,840,000; and subscribed for 32,288,000 new shares to be issued and distributed by Suchuang Gas for subscription at a consideration of HK\$82,334,400.

(2) Material Non-equity Investment

Applicable Not applicable

(3) Financial Assets at Fair Value

	Fair value measurement using quoted prices in active markets (Level 1)	
	2016 RMB'000	2015 RMB'000
Available-for-sale listed investments	478,317	522,423
Equity and debt investments at fair value through profit or loss	74,103	106,333

MANAGEMENT DISCUSSION AND ANALYSIS

(I) *Material Disposal of Assets and Equity*

Applicable Not applicable

- On April 28, 2016, Shanghai Dazhong Jiading Sewage Co., Ltd. (a subsidiary controlled by the Company) and Dazhong Transportation (Group) Co., Ltd. entered into the Shanghai Property Transaction Contract (《上海市產權交易合同》) in Shanghai, pursuant to which, Shanghai Dazhong Jiading Sewage Co., Ltd. (a subsidiary controlled by the Company) transferred 19% equity interest in Shanghai Jiading Dazhong Micro-credit Co., Ltd. to Dazhong Transportation (Group) Co., Ltd. According to the Asset Valuation Report with the base date of December 31, 2015 issued by Shanghai Cai Rui Asset Valuation Company Limited, the transfer consideration was RMB409 million.
- On July 14, 2016, Jiangsu Dazhong Water Group Co., Ltd. (a subsidiary controlled by the Company) and the management of Pizhou Fountainhead Water Operation Co., Ltd. and Xuzhou Fountainhead Sewage Co., Ltd. (its wholly-owned subsidiaries) entered into the Equity Transfer Agreement (《股權轉讓協議》), pursuant to which, Jiangsu Dazhong transferred 51% equity interest and the attached shareholders' rights in Pizhou Fountainhead and Xuzhou Fountainhead to the management of Pizhou Fountainhead and Xuzhou Fountainhead at consideration of RMB14,510,000 and RMB12,336,000, respectively.

(II) *Analysis of Major Controlling Companies and Participating Companies*

Company name	Registered Capital	Business Scope	Total assets RMB'000	Net assets RMB'000	Revenue RMB'000	Total Comprehensive income for the year RMB'000
Dazhong Transportation (Group) Co., Ltd.	RMB2,364,122,864	Public transportation	15,938,022	9,783,315	3,226,318	933,685
Shenzhen Capital Group Co. Ltd.	RMB4,202,249,520	Investment holding and provision of financial advisory and asset management services	21,501,688	12,120,266	588,297	(410,305)
Shanghai Dazhong Gas Co., Ltd.	RMB800,000,000	Piped gas supply	4,043,132	1,099,300	3,587,344	108,318

Use of Proceeds

H Shares

On December 5, 2016, the Company completed the public offering of 478,940,000 H Shares (excluding over-allotment) (comprising 435,400,000 new H Shares offered by the Company and 43,540,000 H Shares sold by the Selling Shareholders). The issue price under the public offering was HK\$3.60 per H Share. The net proceeds (after deducting the underwriting fees and commissions, transaction levy and trading fee) received by the Company were approximately HK\$1,444.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

On January 9, 2017, the Company further completed the public offering of 54,703,000 additional H Shares (comprising 49,730,000 new H Shares issued and allotted by the Company and 4,973,000 H Shares sold by the Selling Shareholders) due to the partial exercise of the over-allotment options at the issue price of HK\$3.60 per H Share. Additional net proceeds (after deducting the underwriting fees and commissions, transaction levy and trading fee) of approximately HK\$175.0 million were received by the Company.

The number of new H Shares issued pursuant to the abovementioned issuances was 485,130,000 H Shares, with the total net proceeds amounting to approximately HK\$1,619.5 million. As disclosed in the Prospectus, the Company intends to apply the net proceeds from the public offering for the follow purposes

	Percentage of net proceeds to be used
For investment in piped gas supply business, including the acquisition of equity interest in selected piped gas suppliers.	35%
For the expansion of the Group's wastewater treatment operations, including expansion and renovation of existing plants and potential acquisition of new plants or operations in connection with the PPP reform program.	30%
For investment in other public utility businesses.	25%
For funding the Group's working capital and other general corporate purposes.	10%

As of December 31, 2016, the Company has not yet utilized the total net proceeds in accordance with the intended use of proceeds set out in the Prospectus.

As at the date of this annual report, the Directors do not anticipate any change to the plan as to the use of proceeds.

C. CORE COMPETITIVENESS

III. Analysis of Core Competitiveness during the Reporting Period

(1) "Dazhong" brand advantage

"Dazhong" is a well-known trademark in Shanghai approved for use in 1994. It has a strong intangible asset advantage in public utility industry with a wide customer base and brand recognition, and has been rated as a well-known trademark in Shanghai for years. Its core brands, namely "Dazhong Transportation", "Dazhong Gas", "Dazhong Rental" and "Dazhong Logistics" maintain the market leading positions in terms of market share and operating results. "Dazhong" brand is becoming the leading brand in the public utility industry and has become the highlighted part of core competitiveness of the enterprise, laying solid foundation for Dazhong to become a centuries-old enterprise.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) *Advantages of defensiveness and stability in the public utility industry*

The public utility industry is inseparable from the everyday life of citizens, on which the influence of economic cycle is not significant. In the economic adjustment period, the public utility industry is often regarded as a defensive industry in the capital market.

The Company is engaged in urban gas business, sewage treatment business and urban transportation business and infrastructure investment and operation business. As its business may involve laying of pipeline network or national economy and people's livelihood as well as operation and development of cities, it is regarded as stable and irreplaceable.

The stable cash flow generated from the operation of public utility service of the Company provides necessary funding resource and basis for business expansion and exploration for its strategic and financial investments.

(3) *A piped gas supplier in Yangtze River Delta with a long history*

The urban gas business of the Company covers Shanghai, Nantong and Taicang. Since 2001, the Company has been the sole piped gas supplier in the South Puxi Area, with a market share of 40% in the gas sales market in Shanghai. As of the end of the Reporting Period, the total length of pipeline of the Company in Shanghai amounted to 6,427.84 kilometers, the longest among the three piped gas supply companies in Shanghai. In 2004, the Company expanded its piped gas supply operations to Nantong Area. It is currently the only natural gas supplier in three districts among the four districts of Nantong urban area, and accounted for approximately 80% of the total natural gas supply volume in Nantong urban area. As of the end of the Reporting Period, the total length of pipeline of the Company in Nantong Area amounted to 2,660 kilometers. In May 2016, the Company acquired 19.76% of equity interests in Hong Kong listed company Suchuang Gas (stock code: 1430.HK) and became the second largest shareholder, expanding its business to Taichang City. The Company will follow the government policy, benefits and technological innovation to promote clean energy, and actively expand its piped gas business to the Yangtze River Delta cities.

(4) *Quality wastewater treatment operations*

The Company expanded into the wastewater treatment business in 2003 through a 25-year BT arrangement with the local government for the construction of a wastewater treatment plant in Xiaoshan District, Hangzhou City, Zhejiang Province. The Xiaoshan plant specializes in treating high-density industrial wastewater requiring highly technical processes and facilities. The Xiaoshan plant has won multiple awards, including Qianjiang Bei Award of Construction Projects in Zhejiang Province (浙江省建設工程錢江杯獎) in 2008. In 2005, the Company acquired a wastewater treatment plant in Jiading District, Shanghai through public bidding. The Phase I, II and III of the plant have a designed processing capacity of 175,000 cubic meters/day, treating 50% of wastewater in Jiading. The Company relies on mature operation and management experience and advanced technology, and it has become a leading company of environmental protection and emission reduction in Jiading District and won the National Exemplary Urban Wastewater Treatment Plant Award (全國城鎮污水處理廠優秀運營單位) issued by China Urban Water Supply and Disposal Committee in 2008. In 2010, the Company acquired Jiangsu Dazhong Water which operates five wastewater treatment plants through BOT or TOT arrangements in the Xuzhou Area, a strategic location in the government's plan to divert water source in Southern China to supply Northern China. Our wastewater treatment plants in Xuzhou Area have won multiple awards, including Excellent Company awarded by Environmental Protection Office of Jiangsu Province in 2013. In April 2015, the State Council promulgated the Water Pollution Prevention Plan (水污染防治行動計劃), detailing 10 principles and the government's plans for water pollution prevention and wastewater treatment in China. The Government subsequently followed the planned investments and actions to substantially stimulate the wastewater treatment industry and create a large number of needs and opportunities. The Company will strive to seize the policy opportunities and steadily develop the wastewater treatment business with more than 10 years of operating experience.

MANAGEMENT DISCUSSION AND ANALYSIS

(5) Diversified income resource

The Company achieved diversified income stream through a prudent investment portfolio with solid historical performance of sustained value growth and recurring dividend income. The Company adhered to make direct investments in industries of which it have operational experience or in-depth understandings and indirect investment through selected investment platforms in industries it is less familiar with, in order to enhance the value of the Company.

As the largest shareholder, the Company has participated in, and exerted significant influence over, Dazhong Transportation Group's business and decision-making process. The strategic investment in Dazhong Transportation Group has generated strong returns for the Company over the years. The Company is the third largest shareholder of Shenzhen Capital Group. The Company is actively involved in the business decision-making and risk management of Shenzhen Capital Group through our presence on its board of directors and earns dividend income every year. At present, Shenzhen Capital Group has become the largest local investment company with strongest strength and largest influence. As of the end of February 2017, in terms of the number of investment enterprises and the number of listed investment enterprises, it ranked the first in the PRC. It has invested in 719 projects, with an accumulative investment amount of more than RMB26.5 billion, of which 116 investment enterprises were listed in 16 global capital markets.

(6) Experienced management team

The senior management team, led by our Chairman, Mr. Yang Guoping, is with visions and vast experience and visionary strategic planning and detail-orientated execution. Mr. Yang was one of the entrepreneurs who participated in the early stage of the economic and corporate structure reform of SOEs in China and led a few major public interest related reform projects in Shanghai. Other senior management members have extensive experience in the industry. The team is stable and able to carry out the operations and investment strategies and respond quickly to changing market conditions.

(7) Rigorous corporate governance and risk management

The Company performed rigorous corporate governance and risk management. The Company has built a corporate governance infrastructure which includes 90 items of detailed internal control and risk management policies that govern all major aspects of its operations in each department, including operational procedures, responsibility allocation, resource management, reporting hierarchy and internal assessment criteria. This corporate governance infrastructure reflects the operational and management experience we have accumulated over 20 years of our operations. The internal control and risk management policies are subject to review and amended to reflect changes in market conditions, applicable rules and regulations and risk profiles of our various business segments. Led by our Chairman, our risk management committee reviews and approves all our material investment decisions. For important investment projects, we also hire third-party professionals to provide independent report or advice.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Company completed its A+H Shares arrangement. The successful listing in Hong Kong was an important milestone of the Company's business development and allowed the Company to better leverage on the capital market to develop an international financial platform and make a substantial step for international strategy. During the Reporting Period, the Company had not experienced any situation of core competitiveness being significantly impacted due to the resignation of the core management team and the loss of concession. The Company will carefully analyze and study the opportunities and challenges from changes in economic environment, market changes and business changes to enhance the Company's overall competitiveness.

D. EMPLOYEES AND REMUNERATION POLICIES

The Directors and Supervisors receive compensation in the form of fees, salaries, allowances and benefits-in-kind and retirement benefit plans contributions. The remuneration of the Directors and Supervisors is determined with reference to the performance of the Company and is based on annual audited financial statements. The remuneration of some of the Directors, who are the directors or general managers of the Company's subsidiaries, is also determined with reference to the annual performance appraisal target (task book (年度績效考核目標(任務)書) signed between those Directors and the Company. The Remuneration and Appraisal Committee of the Company is responsible for reviewing and examining the remuneration policies and plans of the Directors, president and other senior management of the Company from time to time.

Developing and maintaining a team of capable and motivated managerial, technical and other employees is critical to the Group's success. Compensation for the Group's employees includes basic wages, bonuses and other staff benefits. The Group also provides social insurance and other benefits to its employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing and personal accident insurance pursuant to PRC labor law and relevant requirements of the national and local governments. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by the Group and the employees at a certain proportion in accordance with the relevant local requirements. The work injury insurance and maternity insurance are generally paid by the Group. The Group reviews the performance of its employees annually, the results of which are applied in his or her annual salary review and promotion appraisal. We also provide on-the-job training to our employees from time to time.

Please refer to the section "Directors, Supervisors and Senior Management" of this annual report for details of employees and remuneration policies of the Group.

As at December 31, 2016, the Group has 2,131 employees. The Group's employee expenses was RMB549.8 million for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) BUSINESS OUTLOOK FOR 2017

III. THE COMPANY'S DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

(1) Industry Landscape and Trend

Industry Landscape and Trend

1. City Gas Industry

Natural gas is a quality, highly efficient, clean and low-carbon energy. Accelerating the development of natural gas industry and increasing the proportion of natural gas in consumption of primary energy are effective methods to improve the air quality and achieve green and low-carbon development. According to the data released by the National Development and Reform Commission, in 2016, the national production volume of natural gas maintained stable growth, and the import volume recorded rapid growth. Total production volume of natural gas for the year amounted to 137.1 billion cubic meters, representing a year-on-year increase of 1.5%, total import volume of natural gas for the year amounted to 72.1 billion cubic meters, representing a year-on-year increase of 17.4%, natural gas consumption amounted to 205.8 billion cubic meters, representing a year-on-year increase of 6.6%. The PRC's natural gas consumption accounted for 6.4% of the total primary energy consumption, which was significantly lower than the proportion of natural gas in global primary energy consumption of 23.9%, reflecting that the PRC's natural gas utilization is still at relatively low level.

In recent years, the government has been actively promoting the energy structure adjustment to accelerate the development of utilization of natural gas and other clean energy, and issued various policies related to natural gas industry. In 2016, the Oil and Gas Bureau of the National Energy Administration issued the Opinion on Accelerating the Development of Natural Gas Utilization (draft for public consultation) (《關於加快推進天然氣利用的意見》(徵求意見稿)), which proposed to facilitate the large-scale, highly efficient and scientific utilization of natural gas in four sectors, namely city gas, industrial fuel, gas fueled power generation and transportation fuel, which significantly promoted the position of natural gas as a major energy. The 13th Five-Year Plan for Development of Natural Gas (《天然氣發展「十三五」計劃》) jointly published by the National Development and Reform Commission and National Energy Administration proposed that, during the "13th Five-Year" period, the PRC will strive to increase the proportion of natural gas consumption to 10%, facilitate the fair and open development of natural gas receipt and storage facilities, and put great efforts in natural gas distributed energy resources. The target of reaching 10% in proportion of natural gas consumption further reflected the PRC's emphasis on natural gas development.

The PRC continuously strengthened the treatment of air pollution, put great efforts in implementation of clean and low-carbon development strategy, and actively facilitated the new urbanization construction. As such, natural gas will surely play a bigger role in adjustment and optimization of energy structure.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Wastewater Treatment Industry*

In recent years, with the continuous implementation of PRC's industrialization and urbanization, the problems of shortage of water resources and pollution of water environment are becoming more severe. Therefore, wastewater treatment has gradually become a necessary and integral part in economic development and water resources protection. As such, vigorous development of wastewater treatment technology and industrialization level is important methods to prevent water pollution and alleviate the shortage of water resources. According to the outline of 13th Five-Year Plan and other relevant documents, wastewater treatment industry, which is closely related to the ecological environment quality, will be further developed.

During the reporting period, the National Development and Reform Commission and the Ministry of Housing and Urban-Rural Development jointly issued the Construction Plan of Urban Wastewater Treatment and Recycling Facilities in the PRC During the 13th Five-Year Period (draft for public consultation) (《十三五全國城鎮污水處理及再生利用設施建設規劃(徵求意見稿)》), which proposed the major target, that is, by 2020, all prefecture-level cities and counties and certain towns shall possess the ability of centralized treatment of wastewater with full coverage of urban wastewater treatment facilities, and the urban wastewater treatment ratio shall reach 95%. The Ministry of Finance issued the Notice on Further Implementation of Public-Private-Partnership Model in Public Service Sectors (《關於在公共服務領域深入推進政府和社會資本合作工作的通知》), which stated that, in public service sectors such as wastewater treatment, newly constructed projects shall adopt the PPP model on a compulsory basis. With the implementation of the government's policies on water environment protection, the booming urban infrastructure construction driven by the PPP model, further open of water market and the accelerated development of investment in water treatment industry have become a trend, wastewater treatment industry will enter a period of rapid growth.

Meanwhile, the rapid development of wastewater treatment industry also intensified the competition within the industry. Low pricing competition and increasing demand for environmental protection have posed challenges for wastewater treatment enterprises. Industry integration and ecological collaboration based on big data, merger, acquisition and cooperation between the upstream and downstream of the industrial chain, horizontal and vertical expansion of the industrial chain, the concept of technology as resources and mutually dependent business model after the introduction of ecological civilization and new capital may become the future development trend of wastewater treatment industry.

MANAGEMENT DISCUSSION AND ANALYSIS

3. *Urban Transportation Industry*

Taxi is an integral part of the comprehensive urban transportation system, the reform and development of taxi industry is important to the public transportation as well as the stability of the society. During the "13th Five-Year" period, Shanghai carried out various key tasks, and pointed out the total number of taxis shall be controlled and adjusted based on regional economic and social development and the transportation demand of the public with reference to the mileage utilization rate and market condition. The industry shall continuously optimize the taxi service, strengthen the construction of dispatch platform, taxi stations and other ancillary facilities, introduce the smart terminal application, enhance the operation efficiency of taxi, effectively reduce the unloaded ratio, and satisfy the personal transportation demand of the public. It shall also explore new models for management of taxi, improve the corporate management, and explore diverse operation models where risks are shared by both the enterprises and the drivers. The operation period expiry system shall be implemented gradually. The industry shall further improve the taxi pricing mechanism, balance the supply and demand in taxi transportation market through transportation price adjustment, and establish a dynamic price adjustment mechanism based on CPI, average income level of the public, oil price and other factors. It shall also combat the illegal passenger vehicles to create a regulated, fair and orderly market environment.

4. *Infrastructure Investment and Operation Industry*

The continuous increase in urban population leads to the significant increase in demand for urban transportation. In certain areas, the traffic congestion of vehicles and pedestrians is severe. In order to alleviate the problem of traffic congestion in urban area, ring roads, expressways and overpasses are required. Moreover, in order to solve the problem of over concentration of population, most of the cities began to develop sub-centers. As such, expressways and main roads are required to link the sub-centers of the cities. In order to improve the urban infrastructure, governments make large investment in urban road, channel, bridge sector, and also encourage private capital to invest in this sector. This trend is expected to continue in the next few years.

5. *Financial Service Industry*

During the current slowdown of economic growth, finance leasing has become the closest bond between financial industry and physical industry. In September 2015, the State Council issued the Guideline on Accelerating the Development of Finance Leasing Industry (《關於加快融資租賃業發展的指導意見》) and the Guideline of Promoting the Healthy Development of Financial Leasing Industry (《關於促進金融租賃行業健康發展的指導意見》), which emphasized on taking measures to utilize the supporting functions of finance leasing in industry upgrade, technology update, promotion of import and export and support to development of SMEs, expanding the financing channel, strengthening the supervision and self-regulation of the industry. Such guidelines also actively facilitated the industry transformation and upgrade. The documents also encouraged the finance leasing companies to actively serve the "One Belt, One Road", Beijing-Tianjin-Hebei collaborative development, Yangtze River Economic Belt, "Made in China 2025", new urbanization construction and other national major strategies. The guidelines required that, by 2020, the PRC's finance leasing industry shall be in the world leading position in terms of market scale and competitiveness. All provinces have successively issued implementation rules to facilitate the accelerating development of the industry. At the executive meeting of the State Council, the government proposed four policies to accelerate the development of finance leasing and financial leasing industries, and made comprehensive plan for the development of finance leasing industry in various aspects such as reform of system and mechanism, accelerating development of key sectors, innovative development models and strengthening supervision during and after the transactions. The support of a series of policies will facilitate the rapid growth of finance leasing industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Through ten years of development, micro-credit, a micro financial model, is about to enter the phase of maturity, and has gradually become a good supplement to the financial market and a power support to the development of inclusive financial system. In recent years, with the rapid development of PRC's internet financial services, traditional micro-credit companies provided innovative financial products and services with the support from internet technology, which created a new direction for the development of micro-credit industry. On the other hand, with the application of mobile internet, big data and cloud computing and meticulous calculation method, micro-credit companies effectively solved the cost problem, credit problem and risk control problem in their operation. Micro credit is an effective way to put the inclusive financial system into practice. New technologies such as mobile internet will facilitate the healthy development of micro-credit companies, thereby further facilitating the development and improvement of the PRC's inclusive financial system.

The third party payment is an important part of the modern financial services industry. It is also the underlying supporting force of the rapid development of the Internet economy and the driving force for further development of PRC. In terms of the overall development of third party payment industry, the frequent launch of industry regulatory policies. The regulatory authority has a clear plan on the development and business model of third party payment. The third party payment is again positioned as small, fast and easy service and small micro-payment intermediaries. Third-party payment market has become more standardized. Meanwhile, the business scope and revenue of third payment industry become predictable with less and less market variables. It will become a trend like this: the companies with strong technical strength and higher market shares will have more power. The companies with single business scope and lower market shares will provide differentiated services with existing channels.

6. *Venture Capital Industry*

In recent years, the PRC's venture capital industry experienced rapid growth with large amount of support from the government. In April 2016, the China Banking Regulatory Commission, the Ministry of Science and Technology and the People's Bank of China jointly published the Guideline on Supporting the Banking Institutions to Increase the Innovative Efforts in Implementation of Pilot Projects of Investment and Loan to Technological Innovation-Based Enterprises (《關於支持銀行業金融機構加大創新力度開展科創企業投貸聯動試點的指導意見》), in order to encourage the banking institutions to move forward the financial services based on the development cycle of technological innovation-based enterprises, provide funding support to technological innovation-based enterprises in seed phase, startup phase and development phase, effectively increase the total funding to technological innovation-based enterprises, optimize the financial supply structure and explore and facilitate the business innovation development of banking institutions. On 20 September, the State Council further issued the Certain Opinions of the State Council on Promoting the Ongoing and Healthy Development of Venture Capital (《國務院關於促進創業投資持續健康發展的若干意見》) to promote the development of venture capital industry in various aspects such as cultivating diversified venture capital companies, expanding the sources of venture capital fund in multiple channels, strengthening the guidance from the government and policy support, improving the laws and regulations related to venture capital and exiting mechanism of venture capital, optimizing the venture capital market environment and facilitating the two-way opening of venture capital industry. Venture capital industry has entered the phase of rapid development with the policy support.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Development Strategy of the Company

2017 is an important year for the implementation of “13th Five-Year” plan, and is also a year for strengthening the PRC’s supply side structural reform. DZUG will continuously strengthen the corporate development strategy of “simultaneous development of public utility and financial investment”, ensure the satisfaction of high requirements in supervision and governance standard of the Group, increase the supporting effect of proceeds from equity, debt financing and loans on the Company’s operation growth, maintain the intensity and depth of effective investment, think for the next three years and plan for the next ten years based on the operation of current year to ensure full achievement of the operation and management targets for the whole year.

(3) Operation Plan

1. Actively carry out effective investment projects, strengthen the Company’s sustainable development momentum.

The reserve and expansion of public utility projects are the first priority in the Company’s operation in 2017, the long-term and strategic tasks of DZUG in investment and operation of public utility sector, and also the driving factors for maintaining and improving the Company’s core competitiveness and achieving sustainable development. DZUG will actively seek the opportunities of merger, acquisition and development of domestic and foreign quality projects in gas supply and environment industries, emphasize on increasing the Company’s investment proportion in public utility business, and continuously improve the overall profitability of the Company’s principal businesses. Meanwhile, it will also explore and facilitate the interaction between the Company’s financial business and investment business to form a model of “investment and loan interaction”, integrate and adopt various financing models to create new competitive strength, and promote the strategic innovation in the transformation and development of the Company’s financial investment business.

2. Establish a talent reserve system for the Company, carry out talent management based on demand.

Human resources are important for improving corporate competitiveness and gaining competitive strength. Currently, DZUG is entering the new phase of corporate development. With the gradual expansion of business and continuous enhancement of requirements for management and control, the Company will accelerate the recruitment and reserve of talents in operation, finance, investment and profession technology sectors needed by the Company to ensure that the demand for human resources will be satisfied in quantity and quality when and where needed. Meanwhile, the Company will further study and optimize the employee performance assessment and incentive mechanism, stimulate the initiative and creativity of employees, and continuously improve the overall competitiveness of the employees, departments and the Company in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

- Continuously strengthen the banking institution cooperation model, increase the financial leverage ratio appropriately.

Base on the strategic position in the Company's development plan, the Company will actively explore and facilitate the joint establishment of industry fund and equity fund with quality banking institutions and securities brokers, fully utilize the Company's investment, merger and acquisition experiences and resource advantages, identify, reserve and cultivate quality projects and lower the Company's risk from merger and acquisition, and identify and cultivate the best targets for merger and acquisition through flexible fund operation.

The Company will continuously strengthen its capital reserve by way of equity and debt financing and loan in a reasonable manner to meet the needs for future production and operation and project investment of the Company. The Company will fully utilize the issue of debt financing instruments to continuously reduce the financing interest rate and enhance the capital utilization rate of the Company through public issuance. The Company will also increase the financial leverage ratio appropriately and fully utilize merger and acquisition loan and credit limit to provide solid capital protection for the development of the Company's principal businesses.

- Strengthen the effectiveness of informatization aided management, optimize and improve the centralized management and control system.

The Company will fully utilize the function of informatization aided management, establish and optimize the informatized and centralized management platform for capital management and control, business management, human resources and support to decision making, continuously improve the Company's level of informatized and centralized management and control, and facilitate the achievement of transition from improving management efficiency to strengthening management effectiveness. The Company will also continuously strengthen its efforts in supervision of internal control and management, continuously optimized the Company's internal management system and procedures, and enhance the management effectiveness of the Company's office approval (OA) platform.

(4) Potential Risks

- Risk of pricing policies***

City gas, wastewater treatment, urban transportation and infrastructure investment and operation are within public utility sector with focus on both economic benefits and social welfare. The development and profit level of these businesses are subject to certain policy risks. The governments pricing model and pricing mechanism for gas price, wastewater treatment price and city taxi transportation price may affect the profitability of the Company.

- Risk related to environmental protection***

Wastewater treatment business is one of the Company's principal businesses, which is subject to stringent requirements from relevant national laws, regulations and policies on environmental protection. If environment related accidents occur, the Company may be subject to relevant punishment, therefore, it exposes to certain relevant risks.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Risk of market competition

The taxi segment in the Company's urban transportation business enjoys a relative large share in Shanghai's taxi market. However, the continuous development of Shanghai's rail transportation and the non-compliant operation of certain online car hailing services will have certain effect on the taxi operation of Dazhong Transportation.

4. Risk of financial credit

The Company's financial service business (including micro-credit and finance leasing) provides services to individual and corporate customers. If any individual and corporate customers are, subjectively or objectively, not able to perform their contractual obligations or responsibilities, the Company's operating results, financial position and profitability may be adversely affected.

5. Investment risk of financial investment business

As venture capital business is inherently of high risk, the Company's investment in financial investment sector may be subject to certain investment risk.

6. Risk of overseas investment and exchange rate fluctuation

The risks objectively existed, yet hard to be identified in advance, in overseas investment environment which may lead to loss in overseas investment thereby leading to failure in overseas investment include, among others, political risk, cultural risk and market risk. Affected by domestic and foreign economic and political situations as well as the supply and demand of currencies, the exchange rates of RMB against other currencies in the future may be materially different from the prevailing exchange rates, which may have certain effect on the Company's operating results.

REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES

The principal business activities of the Group included piped gas supply, wastewater treatment, public infrastructure projects and financial services. For details, please refer to the section headed "Management Discussion and Analysis" of this annual report.

The breakdown of the Group's revenue by operational segments is as follows:

	Year ended December 31,			
	2016		2015	
	RMB'000	%	RMB'000	%
Public Utility Services				
Piped gas supply	4,243,555	92.89	4,359,700	94.44
Wastewater treatment	178,133	3.90	148,256	3.21
Public infrastructure projects	55,497	1.21	58,112	1.25
	4,477,185		4,566,068	
Financial Services				
Micro-credit	22,869	0.50	28,996	0.63
Financial leasing	68,342	1.50	21,531	0.47
Total	4,568,396	100.0	4,616,595	100.0

Details of the principal activities of the principal subsidiaries are set out in note 25 to the financial statements of this annual report.

There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

BUSINESS REVIEW

A review of the business of the Group, the risks which may be encountered, discussions on the future business development and analysis of the Group using financial key performance indicators are set out in the section headed "Management Discussions and Analysis" of this annual report. For details of significant events which had impacts on the Group, please refer to the section headed "Significant Events" of this annual report.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the total turnover attributable to the Group's five largest customers was less than 30%.

For the year ended December 31, 2016, purchases from the five largest suppliers and the largest supplier of the Group, Shanghai Gas Group, accounted for 78.2% and 59.1% (2015: 82.2% and 63.3%) of the total purchases of the Group, respectively. Shanghai Gas Group is the Company's minority shareholder and holds a 50% equity interest in Shanghai Dazhong Gas. Save as disclosed above, none of Directors, their close associates, or any Shareholder (which to the knowledge of the Directors owns more than 5% of the issuers' share capital) has any interest in the five largest suppliers of the Group.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

Relationship with Employees

The Group is of the view that employees are the most important assets of the Group and attaches great importance to maintaining good relationship with employees. The Group is committed to provide our staff with a stable working environment and continues to uphold the principles of impartiality, fairness and merit-based employment, and constantly improves the criteria for personnel selection and appointment. To retain talents, the Group has offered employees with competitive remuneration package, which includes basic wages, bonuses and other staff benefits. The Group also provides social insurance and other benefits to employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing and personal accident insurance pursuant to PRC labor law and relevant requirements of the national and local governments. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed the Group and the employees at a certain proportion in accordance with the relevant local requirements. The work injury insurance and maternity insurance are generally paid by the Group. The Group reviews the performance of its employees annually, the results of which are applied in his or her annual salary review and promotion appraisal. The Group also provides on-the-job training to its employees from time to time. For details, please refer to the "Environmental, Social and Governance Report" of the Company, which will be published on the Company's website in due course.

Relationship with Suppliers

With respect to the Group's piped gas supply business, the Group outsources to professional pipeline design companies and independent third-party professional subcontractors with requisite qualifications, especially for large-scale pipeline construction in Shanghai and Nantong areas. The Group generally selects third-party subcontractors from a list of qualified constructors and has established long-term strategic relationship with certain subcontractors. The subcontracting fees are individually negotiated and project-specific, and generally in line with market standards. The Group oversees the projects to ensure that the construction of the pipelines is carried out in accordance with all the relevant standards and regulations. The construction is also supervised by third-party professional supervision companies engaged by the Group, in addition to the Group's own on-site supervision engineers.

The suppliers for piped gas business also include upstream gas distributors. The Group's piped gas supplier in Shanghai is Shanghai Gas Group, who is the Group's minority shareholder and holds a 50% equity interest in Shanghai Dazhong Gas. The Group's piped gas supplier in Nantong Area is CNPC. In Shanghai, guidance procurement price of piped gas is set by Shanghai Construction Administration. In Nantong Area, the Group's procurement price of piped gas is negotiated with the upstream piped gas supplier pursuant to the benchmark gateway station prices set by NDRC.

REPORT OF THE DIRECTORS

The Group conducts the wastewater treatment and public infrastructure projects business mainly through BT and BOT contracts. The Group mainly engages third-party professional designing companies and construction companies who act as contractors during the construction phase of such projects. The Group values its relationship with suppliers and has established long-term relationship with several of its subcontractors in respect of construction, repair and maintenance of the projects.

Relationship with Customers

The Group's customers in piped gas supply business are commercial entities and individual households which use the piped gas the Group delivered. Due to the nature of the gas supply business, the Group is generally able to retain its customers once they are connected to the Group's gas supply network and use the Group's gas supply services, unless such customers relocate from their current premises.

The Group is committed to provide safe and reliable services to our customers. The Group is responsible for the repair and maintenance services to customers for pipelines on their premises and related accessories and the Group operates a service center and several service branches where end users can make payment or schedule repair and other services. The Group's safety and service department sets safety and maintenance measures and monitors the implementation of such measures. It has a maintenance schedule pursuant to which the maintenance crew performs inspection and maintenance work on the Group's pipeline network. The Group also engages third-party contractors to perform certain regular pipeline inspection and maintenance works and closely monitors the operations of such contractors.

The Group charges different retail prices for residential and non-residential end users pursuant to the relevant regulations. Retail prices for non-residential usage, such as by industrial and commercial end users, are generally higher than those for residential usage. Local DRC and/or price bureau may adjust the retail prices from time to time due to various reasons, such as in response to increases of piped gas gateway station prices mandated by NDRC, inflation, or for other local considerations. For certain non-residential users with a high consumption of piped gas, the Group generally enters into individual supply agreements with them.

The Group conducts its environment and public infrastructure projects business mainly through BOT, TOT or BT contracts under which the customers are local governments. The Group is entitled to operate the plants for a concession period in exchange for service fees payable to the Group by the relevant local governments. The fees received by the Group during the concession periods are based on the treatment volume and the unit price set forth in the relevant concession agreements. The Group generally requests and receives payment of concession fees monthly from the relevant local governments.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group is subject to various PRC environmental laws and regulations, including the *Environmental Protection Law of the PRC*, the *Law of the PRC on Appraising Environment Impact* and the *Law of the PRC on the Prevention and Control of Water Pollution*. The Group has adopted various measures to promote environmental protection, reduce the emission of greenhouse gas, noise and hazardous waste, improve the efficiency of the use of raw materials and reduce the consumption of natural resources. For details, please refer to the "Environmental, Social and Governance Report" of the Company, which will be published on the Company's website in due course.

2016

DaZhong Public Utilities

大众公用

REPORT OF THE DIRECTORS

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS OF SIGNIFICANT INFLUENCE

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations (particularly, those that have significant impact on the Group, including but not limited to the *Company Law* of the PRC, the *Securities Law* of the PRC, *Code of Corporate Governance for Listed Companies* (《上市公司治理準則》) issued by the CSRC, CG Code, the Hong Kong Listing Rules, and the listing rules of the Shanghai Stock Exchange). The Board is responsible for monitoring the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

To the best knowledge of the Company, it has complied in all material aspects with relevant laws and regulations which have significant impact on its business and operation.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended December 31, 2016 are set out in note 20 to the financial statements of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year ended December 31, 2016 are set out in note 21 to the financial statements of this annual report.

RESULTS AND DIVIDENDS

The Group's result and financial position for the year ended December 31, 2016 are set out in the financial statements and the accompanying notes on pages 104 to 215 of this annual report.

The Board recommends the payment of a final dividend of RMB0.6 per ten shares (including tax), amounting to RMB177.1 million in aggregate, from the Company's retained distributable profit for the year ended December 31, 2016. The payment of the final dividend is expected to be made on or before July 25, 2017, subject to consideration and approval of the shareholders at the AGM.

There was no arrangement under which a Shareholder has waived or agreed to waive any dividends during the Reporting Period.

REPORT OF THE DIRECTORS

TAX RELIEF

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) 《(國家稅務總局關於印發(非居民享受稅收協定待遇管理辦法(試行))的通知》(國稅發[2009] 124號)), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993] 045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011] 348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H shares in respect of the dividend to be distributed to them. However, the individual holders of H shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled and the tax arrangements between Mainland China and Hong Kong (or Macau).

For individual holders of H shares in general, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of the dividend. However, the tax rates applicable to individual holders of H shares overseas may vary depending on the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled, and the Company will withhold and pay individual income tax on behalf of the individual holders of H shares in the distribution of the dividend accordingly.

For non-resident enterprise holders of H shares, i.e., any shareholders who hold the Company's shares in the name of non-individual shareholders, including but not limited to HKSCC Nominee Limited, other nominees, trustees, or holders of H shares registered in the name of other groups and organisations, the Company will withhold and pay the enterprise income tax at the tax rate of 10% for such holders of H shares pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008] 897號)). Should the holders of H shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual holders of H shares and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual holders of H shares or any disputes over the withholding mechanism or arrangements.

REPORT OF THE DIRECTORS

AGM AND CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The AGM of the Company will be held on Thursday, May 25, 2017, while the notice of the AGM will be published and dispatched to Shareholders of the Company in the manner as stipulated on the Hong Kong Listing Rules when appropriate.

In order to determine the Shareholders eligible to attend the AGM of the Company, the register of members of the Company will be closed from Tuesday, April 25, 2017 to Thursday, May 25, 2017, both days inclusive, during which no transfer of shares will be registered. Only Shareholders of the Company whose names appear on the register of members of the Company on Friday, May 12, 2017 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's H Share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, April 24, 2017.

SUMMARY FINANCIAL INFORMATION

A summary of the financial information for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out in the section headed "Five-Year Financial Summary" in this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in the section "Changes in Share Capital and Information on Shareholders" of this annual report and in note 45 to the financial statements in this annual report.

SUBSIDIARIES

Particulars of the names, places of incorporation and issued/registered share capital of the Company's principal subsidiaries are set out in note 25 to the financial statements in this annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

On December 5, 2016, the Company has successfully listed its H Shares on the Main Board of the Hong Kong Stock Exchange, pursuant to which the Company has issued 478,940,000 H Shares (of which 435,400,000 H Shares has been offered and issued by the Company and 43,540,000 H Shares converted from the Company's A Shares were sold by the Selling Shareholders in accordance with the relevant PRC regulations. The offer price of the H Shares is HK\$3.60 per H Share.

On January 9, 2017, the Company further completed the public offering of 54,703,000 additional H Shares (comprising 49,730,000 new H Shares issued and allotted by the Company and 4,973,000 H Shares sold by the Selling Shareholders) due to the partial exercise of the over-allotment options at the issue price of HK\$3.60 per H Share.

Pursuant to an approval by the National Association of Financial Market Institutional Investors, the Company issued the first tranche of the ultra-short-term notes on September 23, 2016, with a total principal amount of RMB300 million at an interest rate of 2.90% per annum. The notes have a term of 270 days and will mature on June 20, 2017. The issue price of the ultra-short-term notes is RMB100 per RMB100 face value.

Save as disclosed in this annual report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

REPORT OF THE DIRECTORS

CAPITAL RESERVES, SPECIAL RESERVES AND SURPLUS RESERVES

Changes to capital reserves, special reserves and surplus reserves of the Group and the Company during the Reporting Period are set out in the Consolidated Statement of Changes in Equity and notes 46 to the financial statements in this annual report.

DIRECTORS AND SUPERVISORS

The Directors in office during the Reporting Period and up to the Latest Practicable Date are as follows:

Executive Directors

Mr. Yang Guoping (楊國平) (*Chairman*)
 Mr. Zhong Jinxing (鍾晉幸) (*Vice Chairman, Chief Financial Officer*)
 Mr. Liang Jiawei (梁嘉瑋) (*Chief Executive Officer*)
 Ms. Yu Min (俞敏)
 Mr. Yang Jicai (楊繼才)
 Mr. Zhuang Jianhao (莊建浩)

Non-executive Director

Mr. Li Songhua (李松華)

Independent Non-executive Directors

Mr. Cai Jianmin (蔡建民)
 Mr. Chow Siu Lui (鄧小磊)
 Mr. Yan Xuehai (顏學海)
 Mr. Yao Cho Fai Andrew (姚祖輝)

The Company received a resignation letter from Mr. Yan Xuehai (顏學海) resigning as an independent non-executive Director and the member of the audit committee of the Company due to his health condition on February 20, 2017. According to the Guidelines for the Establishment of Independent Directors System by Listed Companies issued by the China Securities Regulatory Commission, Mr. Yan's resignation shall not take effect until the election of a new independent non-executive Director at the general meeting of the Company.

The Supervisors in office during the Reporting Period and up to the Latest Practicable Date are as follows:

Ms. Cao Yongqin (曹永勤) (*Chairman*)
 Ms. Zhao Siyuan (趙思淵)
 Mr. Yang Weibiao (楊衛標)

Further details of the Directors and Supervisors are set forth in the section headed "Directors, Supervisors and Senior Management" of this annual report.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

As of the end of the Reporting Period, there was no change to the information which are required to be disclosed and has been disclosed by the Directors and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Hong Kong Listing Rules since the publication of the Prospectus.

Biographical details of the Directors, Supervisors and the senior management of the Company are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Group were entered into or existed during the Reporting Period.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and Supervisors has interests in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACT, TRANSACTIONS OR ARRANGEMENTS OF SIGNIFICANCE

Save as disclosed in this annual report, none of the Directors or Supervisors had any material interest, either directly or indirectly, in any contract, transactions or arrangements of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or Supervisor or an entity connected with a Director or Supervisor has a material interests was entered into or subsisted at any time during the Reporting Period.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts, transactions or arrangements of significance were entered into during the Reporting Period between the Company or any of its subsidiaries and the controlling shareholder or any of its subsidiaries.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Directors and Supervisors or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement which enabled the Directors or Supervisors to acquire such rights in any other body corporate.

PERMITTED INDEMNITY PROVISIONS

The Company did not have any arrangement with a term providing for indemnity against liability incurred by the Directors and the Supervisors during their tenure.

During the Reporting Period, the Company has taken out and maintained appropriate insurance cover for certain legal actions brought against the Directors, Supervisors and senior management.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, as at the Latest Practicable Date, the Company has been maintaining the sufficient public float as required by the Hong Kong Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or applicable laws of the PRC where the Company is incorporated.

REPORT OF THE DIRECTORS

DONATIONS

During the Reporting Period, the Group made donations of HKD1 million.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Company has entered into the following transactions with connected persons as defined in the Hong Kong Listing Rules:

MASTER GAS PURCHASE AGREEMENTS WITH SHANGHAI GAS GROUP

During the Reporting Period, Shanghai Dazhong Gas purchased piped gas from Shanghai Gas Group in its ordinary course of business at the total consideration of RMB2,367.0 million.

On December 16, 2015, Shanghai Dazhong Gas entered into a framework gas purchase agreement (the “**Framework Agreement**”) and a supplemental agreement (the “**Supplemental Agreement**”, together with the Framework Agreement, the “**Master Gas Purchase Agreements**”) with Shanghai Gas Group in connection with the purchase of piped gas, pursuant to which the parties confirmed and agreed on the expected annual supply volume of piped gas and other volume based parameters each year. The Framework Agreement has a term of 20 years from January 1, 2014 to December 31, 2033. The Supplemental Agreement has a term from December 16, 2015 until December 31, 2018.

Based on the Master Gas Purchase Agreements, the consideration paid to Shanghai Gas Group for the purchase of piped gas are subject to an annual cap of RMB2,600 million, RMB2,660 million and RMB2,720 million for the three years ending December 31, 2016, 2017 and 2018, respectively. Since it is difficult to estimate the piped gas consumption over an extended period, according to the Framework Agreement and in line with the normal business practice in piped gas supply industry in Shanghai, additional five-year annual plans for the amount of piped gas to be supplied in the future shall be further agreed between the parties before December 31, 2018, 2023 and 2028, respectively. According to the relevant PRC laws and regulations, the price of the piped gas purchased by the Group from Shanghai Gas Group is fixed by the relevant local competent authorities. As Shanghai Gas Group is a substantial shareholder of the Company, it is a connected person of the Company pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules. The purchase of piped gas by Shanghai Dazhong Gas from Shanghai Gas Group constitutes continuing connected transactions of the Group upon Listing.

The above continuing connected transactions has followed the policies and guidelines when determining the price and terms of the transactions conducted for the year ended December 31, 2016.

The Board has reviewed the continuing connected transactions as described above and confirmed that during the Reporting Period, such transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

The auditors of the Company have confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions:

- (i) nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (ii) nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iii) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Prospectus in respect of each of the disclosed continuing connected transactions.

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Details of the related party transactions entered into by the Group during the Reporting Period are disclosed in note 49 to the financial statements. Save as disclosed in the paragraph headed “Continuing Connected Transactions” in this annual report, the related parties transactions disclosed in note 49 are not “connected transaction” or “continuing connected transaction” (as the case may be) in Chapter 14A of the Hong Kong Listing Rules, or they were exempt from reporting, announcement and shareholders’ approval pursuant to Chapter 14 A of the Hong Kong Listing Rules.

EQUITY-LINKED AGREEMENT

During the Reporting Period, the Group has not entered into any equity-linked agreements.

SUBSEQUENT EVENTS

Details of significant subsequent events of the Group are set out in note 55 to the financial statements.

COMPLIANCE WITH CG CODE

The Company has adopted the code provisions set out in Appendix 14 to the Hong Kong Listing Rules upon Listing. The Board is of the view that the Company has complied with all the code provisions as set out in the CG Code throughout the period from the Listing Date up to the end of the Reporting Period with the exception of the following deviations:

CODE PROVISION A.2.7

According to provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the period from the Listing Date up to the end of the Reporting Period, the chairman of the Company had not held such meeting with non-executive Directors due to the relatively short period of time between Listing and the end of the Reporting Period.

Further information on the corporate governance practices of the Company is set out in the section “Corporate Governance Report” of this annual report.

REPORT OF THE DIRECTORS

SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND EMPLOYEES

The Company has adopted the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules upon Listing.

Specific enquiries have been made to all the Directors and the Supervisors and the Directors and the Supervisors have confirmed that they have complied with the Model Code throughout the period from the Listing Date up to the end of the Reporting Period.

The Company has also adopted the Securities Dealing Code governing securities transactions by the employees of the Company who may possess or have access to unpublished inside information in relation to dealing securities with terms no less favourable than the Model Code. The Company was not aware of any matters in relation to breaches of the Securities Dealing Code by any employee of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and external auditors the accounting principles and policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended December 31, 2016.

AUDITOR

The consolidated financial statements of the Group have been audited by BDO.

BDO will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for re-appointing BDO as the auditors of the Company will be proposed at the forthcoming AGM.

By order of the Board of Directors
Shanghai Dazhong Public Utilities (Group) Co., Ltd.*
Yang Guoping
Chairman

SIGNIFICANT EVENTS**I. Profit Distribution Plan or Plan to Convert Surplus Reserves into Share Capital****(I) Formulation, implementation or adjustment of cash dividend policy****1. Formulation of cash dividend policy**

In order to further strengthen and improve the scientific, sustainable and stable dividend decision-making and supervision mechanism of the Company and actively return benefits to investors, the Company formulated clear cash dividend policy and its implementation and adjustment mechanism in the Company's Article of Association according to the Listed Companies Regulatory Guidance No.3 – Cash Dividends Distribution of Listed Companies (Notice of CSRC [2013] No.43) issued by China Securities Regulatory Commission.

2. Implementation of cash dividend policy

During the reporting period, the Company strictly carried out the profit distribution policy and implemented the profit distribution plan for 2015: based on the total share capital of 2,467,304,675 shares as at the end of 2015, RMB0.60 (tax inclusive) were distributed for every ten shares, amounting to a total profit distribution of RMB148,038 thousand. During the consideration of the profit distribution plan for 2015, the independent directors fully expressed their opinions. Minority shareholders also expressed their opinions and approval at the shareholders' general meeting. The implementation of profit distribution plan for 2015 was completed on May 31, 2016. This profit distribution complied with the Articles of Association and the requirements resolved at the shareholders' general meeting, with clear criteria and proportion of profit distribution, and the decision-making process was in compliance with relevant requirements.

3. Adjustment of cash dividend policy during the reporting period

During the reporting period, the Company did not adjust the cash dividend policy.

SIGNIFICANT EVENTS

(II) Profit Distribution Plan or pre-arranged plan or Plan or pre-arranged plan to Convert Surplus Reserves into Share Capital in the Previous Three Years (inclusive of the reporting period)

Unit: '000 Currency: RMB

Year of distribution	Number of shares to be distributed for every ten shares (share)	Amount to be distributed for every ten shares (RMB) (tax inclusive)	Number of shares to be converted into share capital for every ten shares (share)	Amount of cash dividend (including tax)	Net profit attributable to ordinary shareholders of listed Company consolidated financial statement during the year of distribution	Percentage of the net profit attributable to the shareholders of the listed Company in the consolidated financial statement (%)
2016	-	0.60	-	177,146	547,642	32.35
2015	-	0.60	-	148,038	463,800	31.92
2014	5	0.35	-	57,422	340,469	16.87

(III) Repurchase offer by cash included in cash dividend Applicable Not applicable**(IV) Earnings and distributable profits available for ordinary shareholders during the reporting period being positive while plan for profit distribution of ordinary shares in cash is not yet proposed, the Company shall disclose the reasons in detail and the purposes and proposed applications of undistributed profits** Applicable Not applicable

SIGNIFICANT EVENTS

II. Performance of undertakings

(I) Undertakings of the de facto controller of the Company, shareholders, related parties, Acquirer and the Company during or subsisting to the Reporting Period

Nature of the undertaking	Type of the undertaking	Undertaking party	Details of the undertaking	Time and term of the undertaking	Whether there is a term for the undertaking	Whether performed timely and strictly	If not perform timely, describe the specific reasons	If not perform timely, describe plans in next steps
Undertaking made in acquisition report or report on changes in equity	Others	Shanghai Dazhong Public Utilities (Group) Co., Ltd. and its parties acting in concert	In the coming 12 months, Dazhong Utility and its parties acting in concert propose to increase their shareholdings in A shares or B shares of Dazhong Transportation, with an increment of not less than 5,000,000 shares but not more than 100,000,000 shares. Prices for acquisition: not more than RMB9/share for A shares; not more than USD1/share for B shares.	22 December 2016, 12 months	Yes	Yes	No	No
Other undertaking made to minority shareholders of the Company	Others	Shanghai Dazhong Public Utilities (Group) Co., Ltd.	On July 10, 2015, it was committed not to reduce shareholdings in Dazhong Transportation in the coming six months, and it was proposed to increase shareholdings in Dazhong Transportation by not less than 15% of the preceding decrease in shareholding through ways including but not limited to targeted asset management by securities companies and fund management companies	July 10, 2015, 6 months	Yes	Yes	No	No
Other undertaking made to minority shareholders of the Company	Others	Shanghai Dazhong Public Utilities (Group) Co., Ltd.	Within 6 months from the date of the Announcement of Profit Distribution and Capitalisation of Capital Reserves for 2015 of Dazhong Transportation (Group) Co., Ltd., the Company and the current directors, supervisors and senior management members shall not reduce their equity interests in Dazhong Transportation.	3 March 2016, 6 months	Yes	Yes	No	No

SIGNIFICANT EVENTS

III. The appointment and dismissal of accountants

Unit:'0000

	Current appointment
Name of the domestic accounting firm	BDO China Shu Lun Pan Certified Public Accountants LLP
Remuneration of the domestic accounting firm	RMB120
Term of audit of the domestic accounting firm	17
Name of the overseas accounting firm	BDO Limited
Remuneration of the overseas accounting firm	HK\$120
Term of audit of the overseas accounting firm	1

	Name	Remuneration
Accounting firm for internal control audit	BDO China Shu Lun Pan Certified Public Accountants LLP	RMB40

On April 15, 2016, the Company's 2015 shareholders' general meeting considered and approved the proposal on reappointment of accountants and the proposal on appointment of internal control audit firms for the Company in 2016. The meeting agreed to reappoint BDO China Shu Lun Pan Certified Public Accountants LLP as the financial audit firm and internal control audit firm for the Company in 2016. The annual financial audit fee amounted to RMB1,200,000 and the internal control audit fee amounted to RMB400,000.

IV. Material litigation and arbitration

- The Company was involved in any material litigation or arbitration in the year
- The Company was not involved in any material litigation or arbitration in the year

SIGNIFICANT EVENTS

V Significant related party transactions

(I) Related party transactions associated with day-to-day operation

1. Matters that have been disclosed in temporary announcements and have no developments or changes in subsequent implementation
 Applicable Not applicable

Description of the matter	Inquiry index
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Shanghai Dazhong Gas Co., Ltd., subsidiary of the Company, acquired natural gas business from Shanghai Gas (Group) Co., Ltd., the second largest shareholder of the Company, being a normal production and operation need.	Temporary 2016-008
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2. Matters that have been disclosed in temporary announcements and have developments or changes in subsequent implementation
 Applicable Not applicable
3. Matters that have not been disclosed in temporary announcements
 Applicable Not applicable

Details of related party transactions and balances and balances are disclosed in note 49 of the financial statement of the year.

SIGNIFICANT EVENTS

(II) Related party transactions arising from the acquisition and disposal of assets or equity interests

1. *Matters that have been disclosed in temporary announcements and have no developments or changes in subsequent implementation*
 Applicable Not applicable

Description of the matter**Inquiry index**

On June 23, 2016, Shanghai Dazhong Financial Leasing Co., Ltd. (上海大眾融資租賃有限公司), the holding subsidiary of the Company, and Dazhong Taxi branch company under Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司) entered into Leased Vehicle Financing and Custody Agreement in Shanghai, pursuant to which Shanghai Dazhong Financial Leasing Co., Ltd. (上海大眾融資租賃有限公司), the holding subsidiary of the Company assisted Dazhong Taxi branch company under Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司) to establish taxi operation need and built partnership, providing financial leasing service with a total amount of not more than RMB50.0 million for the transfer of self-owned vehicles of Dazhong Taxi branch company.

Temporary 2016-034

2. *Matters that have been disclosed in temporary announcements and have developments or changes in subsequent implementation*
 Applicable Not applicable
3. *Matters that have been not disclosed in temporary announcements*
 Applicable Not applicable
4. *Performance with agreed target shall be disclosed during the reporting period*
 Applicable Not applicable

SIGNIFICANT EVENTS

VI. Material contracts and implementation

(I) **Guarantee**

As at December 31, 2016, the Company issued a guarantee to the bank to secured banking facilities granted to certain subsidiaries to the extent of RMB2,500,000,000. As at December 31, 2015, the aforesaid bank loans outstanding amounted to RMB1,002,699,000.

(II) **Cash and Assets Management by Entrusting**1. *Other investment management and derivatives investments*

Unit: RMB'000

Type of investment	Signatory	Investment amount	Term of investment	Type of product	Investment gain and loss	Involved in a litigation or not
Capital preservation with a floating interest	Bank of Communications	50,000	Anytime	Financial product	1,625	No
Non-capital preservation financial product	Industrial Bank	10,000	Anytime	Financial product	320	No
Non-capital preservation financial product with a floating interest rate	Industrial Bank	50,000	180 days	Financial product	512	No
Non-capital preservation with a guaranteed interest	Pacific Insurance Company Limited	50,000	1 year	Financial product	2,050	No
Total		160,000			4,507	

VII. Other matters of significance

Pursuant to the approval by the China Securities Regulatory Commission on approving the issuance of overseas listed foreign shares by Shanghai Dazhong Public (Group) Co., Ltd. (Zheng Jian Xu Ke [2015] No. 3150), and approved by the Hong Kong Stock Exchange, the Company issued 478,940,000 overseas foreign shares (H shares) which were listed on the board of the Hong Kong Stock Exchange on December 5, 2016. The Chinese name of H shares is "Public Utilize", while the English referred to "DZUG". The stock code for H shares is "1635". The Joint Global Coordinator has exercised the over-allotment Option as described in the Prospectus on December 28, 2016, requiring the Company to issue additional total of 54,703,000 H Shares for the additional issue and shareholders to sell.

SIGNIFICANT EVENTS

In accordance with the relevant provisions of the State Council's "Interim Measures for the Administration of Raising Social Security Funds by State-owned Stocks" (National Development and Reform Commission [2001] No. 22), the Company's state-owned shareholders including Shanghai Gas (Group) Co., Ltd. and another state-owned shareholders shall be subject to reduction of state-owned shares, which is equivalent to 10% of the amount of additional shares issued and allotted by the Company when the exercise of the over-allotment exercise is performed to the National Social Security Fund Council and is prorated to the above-mentioned state-owned shareholders. And other state-owned shares to sell the income deducted from the corresponding Hong Kong Securities and Excise Department transaction levy and the Hong Kong Stock Exchange transaction fee two fees, all turned over to the National Social Security Fund Council. In the partial exercise of the over-allotment option, the number of shares held by the above-mentioned state-owned shareholders of the Company was 4,973,000 shares, which was canceled from their respective ordinary shares (A shares) on January 9, 2017. The excess of the H shares listed before the listing of a benchmark against the conversion of H shares by the Hong Kong Securities and Securities Commission Limited to complete the same amount of A shares with the same H shares registered. The 4,973,000 H shares converted by the state-owned shares will be sold by the state-owned shares as shareholders of the Company and sold at the time of the exercise of the over-allotment option. The Company will not acquire any raised funds due to the reduction of state-owned shares.

As at December 31, 2016, the Company's total share capital increased from 2,467,304,675 shares to 2,902,704,675 shares.

As of January 9, 2017, after the listing of the over-allotment shares on the Main Board of the Hong Kong Stock Exchange, the total share capital of the Company increased to 2,952,434,675 shares, of which 2,418,791,675 or 81.93% were A shares and 533,643,000 or 18.07% were H shares.

VIII. Active fulfilment of social responsibilities

(I) *Social responsibility*

The Company puts emphasis on fulfilment of its social responsibilities and adheres to the basic principle of regulated operation of the Company to comply with laws and regulations and relevant requirements during the operation. In 2016, the Company actively fulfilled its responsibilities to the shareholders, creditors, employees, customers, suppliers and other interested parties, focused on environmental protection and energy conservation, paid attention to protection of employees' rights, safe production and prevention of occupational hazards, paid tax according to laws and actively developed employment to contribute to the community within its capacity.

For details of the Company's fulfilment of social responsibilities, please refer to the 2016 Social Responsibility Report.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

CHAPTER I CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

I. Changes in ordinary share capital

(I) Table of changes in ordinary shares

1. Table of changes in ordinary shares

Unit: share

	Opening balance		Change during the reporting period (+,-)					Closing balance	
	Amount	Percentage	New issue	Bonus issue	Shares converted		Subtotal	Amount	Percentage
		(%)			from reserves	Others			(%)
I. Restricted shares	-	-	-	-	-	-	-	-	-
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Shares held by other domestic investors	-	-	-	-	-	-	-	-	-
Including: Shares held by domestic non-State-owned legal persons	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Including: Shares held by overseas legal persons	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
II. Non-restricted liquid shares	2,467,304,675	100	435,400,000	-	-	-	435,400,000	2,902,704,675	100
1. RMB ordinary shares	2,467,304,675	100	-	-	(43,540,000)	-	(43,540,000)	2,423,764,675	83.50
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	-	-	435,400,000	-	43,540,000	-	478,940,000	478,940,000	16.50
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of ordinary shares	2,467,304,675	100	435,400,000	-	-	-	435,400,000	2,902,704,675	100

2. Explanation on changes in ordinary shares

For details, please refer to the section headed "Significant Events — Other matters of significance" set out in this report.

3. The effects of changes in ordinary shareholding on financial indicators such as earnings per share and net assets per share for the latest year and the latest period (if any)

As of December 31, 2016, upon the public issuance of H Shares of the Company, the total share capital of the Company increased from 2,467,304,675 shares before the issuance to 2,902,704,675 shares after the issuance. The share capital increased from RMB2,467,304,675 before the issuance to RMB2,902,704,675 after the issuance. Capital reserve increased by RMB882,191,000. The total assets and net assets of the Company increased accordingly. Based on the 2,467,304,675 shares before this public issuance of H Shares, earnings per share and net assets per share for 2016 amounted to RMB0.22 and RMB3.32 respectively. Based on the 2,902,704,675 shares after this public issuance of H Shares, earnings per share and net assets per share for 2016 amounted to RMB0.19 and RMB2.82 respectively.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

II. Issue and listing of securities

(I) Issue of securities within the reporting period

Unit: share

Type of shares and derivative securities	Issue date	Issue price (or rate)	Issue amount	Listing date	Amounts approved for listing	Ending date for transaction
Type of ordinary shares						
H Shares	November 23, 2016	HK\$3.60	478,940,000	December 5, 2016	478,940,000	N/A
H Shares (Over-allotment)	December 28, 2016	HK\$3.60	54,703,000	January 9, 2017	54,703,000	N/A
Convertible corporate bonds, separably-traded convertible bonds, type of corporate bonds						
Corporate bonds	January 6, 2012	RMB1.6 billion	N/A	January 6, 2012	1,600,000,000	January 5, 2018
Ultra-short-term financial bonds	September 23, 2016	RMB300 million	N/A	September 23, 2016	300,000,000	June 20, 2017

Explanations of the issue of securities during the Reporting Period (please respectively explain the bonds with different rates through the duration):

1. Ordinary shares

For details in relation to the ordinary shares before and after the H Share Issuance, please refer to "Explanation on changes in ordinary shares" under "Table of changes in ordinary shares" in this chapter.

2. Corporate bonds

Upon the approval of the "Zheng Jian Xu Ke [2011] No. 2079" from the CSRC, the Company issued 6-year corporate bonds at floating rates of RMB1.6 billion on January 6, 2012. The value date shall be 6 January and 6 July for every year within the duration of the bond. The issue date was January 6, 2012. The coupon rate for the first interest bearing period was 6.98%. The second interest bearing period of the bond was from July 6, 2012 to January 5, 2013, with a coupon rate of 6.56%. The third interest bearing period of the bond was from January 6, 2013 to July 5, 2013, with a coupon rate of 6.30%. The fourth interest bearing period of the bond was from July 6, 2013 to January 5, 2014, with a coupon rate of 6.85%. The fifth interest bearing period of the bond was from January 6, 2014 to July 5, 2014, with a coupon rate of 7.29%. The sixth interest bearing period of the bond was from July 6, 2014 to January 5, 2015, with a coupon rate of 6.59%. The seventh interest bearing period of the bond was from January 6, 2015 to July 5, 2015, with a coupon rate of 6.44%. The eighth interest bearing period of the bond was from July 6, 2015 to January 5, 2016, with a coupon rate of 6.26%. The ninth interest bearing period of the bond was from January 6, 2016 to July 5, 2016, with a coupon rate of 5.34%. The tenth interest bearing period of the bond was from July 6, 2016 to January 5, 2017, with a coupon rate of 5.28%.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

3. *Ultra short-term financing bonds*

China Interbank Market Dealers Association No. [2016] SCP251 approved the issuance of short-term bonds of the Group on September 23, 2016, with an aggregate principal of RMB300 million. The loans will become due within 270 days, and carried interests at the difference between benchmark rate (according to the interest rate quoted by National Interbank Funding Center) plus an interest rate of 2.90% per annum.

Short-term bonds are stated at amortized cost. Interests are paid on due date.

(II) Changes in the total number of ordinary shares and structure of shareholders and the structure of the assets and liabilities of the Company

The structure of de facto controllers of the Company before and after the H Share Issuance remained unchanged. For details of changes in structure of shareholders, please refer to "Table of changes in ordinary shares" under "Changes in ordinary share capital". The changes in total number of share capital and structure of assets and liabilities of the Company before and after the issuance are as follows:

(1) The changes in the indicators before and after the issuance of H Shares on December 5, 2016:

Indicator	Before issuance	After issuance	Changes	Percentage of change (%)
Total share capital (share)	2,467,304,675	2,902,704,675	435,400,000	17.65
Total assets (RMB'000)	14,493,003	17,369,937	2,876,934	19.85
Net assets attributable to shareholders of the listed Company (RMB'000)	5,774,228	7,119,366	1,345,138	23.30
Gearing ratio (%)	52.84	52.46	(0.38)	(0.72)

(2) The changes in the indicators before and after exercise of over-allotment option on January 9, 2017:

Indicator	Before exercise of over-allotment option	After exercise of over-allotment option	Changes	Percentage of change (%)
Total share capital (share)	2,902,704,675	2,952,434,675	49,730,000	1.71

The joint global coordinator of the Company's listing on the Main Board of the Stock Exchange of Hong Kong Limited partially exercised the over-allotment option of the H Shares issued by the Company on December 28, 2016, requiring the Company to issue additional shares and shareholders to sell a total of 54,703,000 of H Shares (including 4,973,000 H Shares to be issued by the Company; the shareholders sold a total 4,973,000 of H shares for fulfilling the obligations of reducing their state-owned shares). Such over-allotment Shares were listed on the Main Board of the Hong Kong Stock Exchange on January 9, 2017, and the raised proceeds amounted to RMB159.9 million.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

III. Particulars of shareholders and de facto controllers

(I) Total number of shareholders

Total number of shareholders of ordinary shares as at the end of the Reporting Period	228,004
Total number of shareholders of ordinary shares as at the end of the month preceding the day when the annual report was disclosed	218,545
Total number of shareholders of preference shares with voting rights restored as at the end of the Reporting Period	0
Total number of shareholders of preference shares with voting rights restored As at the end of the month preceding the day when the annual report was disclosed	0

(II) Particulars of shareholdings of the top ten shareholders and the top ten shareholders with tradable shares (or shareholders not subject to selling restrictions) as at the end of the Reporting Period

Unit: Share

Particulars of top 10 shareholders

Name of shareholder (Full name)	Increase/ decrease during the Reporting Period	Shareholding at the end of the Reporting Period	Percentage (%)	Number of shares held with selling restrictions	Pledged or moratorium		Nature of shareholders
					Status of shares	Number	
Shanghai Dazhong Business Management Co., Ltd. (上海大眾企業管理有限公司)	0	495,143,859	17.06	0	Pledged	428,500,000	Domestic non-state-owned legal person
Hong Kong Securities Clearing Company Nominees Limited	478,616,000	478,616,000	16.49	0	Nil	0	Overseas legal person
Shanghai Gas (Group) Co., Ltd. (上海燃氣(集團)有限公司)	-42,387,911	158,674,147	5.47	0	Nil	0	State-owned legal person
China Life Insurance Company Limited - Traditional-Ordinary Insurance Products-005L-CT001 Shanghai (中國人壽保險股份有限公司-傳統-普通保險產品-005L-CT001滬)	17,012,283	17,012,283	0.59	0	Nil	0	Unknown
Central Huijin Asset Management Co., Ltd. (中央匯金資產管理有限責任公司)	0	11,370,700	0.39	0	Nil	0	State-owned legal person
China Europe Fund-Ningbo Bank-Junyuan No.1 Stock-type Asset Management Plan (中歐基金-寧波銀行-駿遠1號股票型資產管理計劃)	10,399,318	10,399,318	0.36	0	Nil	0	Unknown
Lin Zhuangxi (林莊喜)	9,000,000	10,000,000	0.34	0	Nil	0	Domestic natural person
Agriculture Bank of China-China Securities 500 Index Fund (中國農業銀行股份有限公司-中證500交易型開放式指數證券投資基金)	-1,440,200	7,814,816	0.27	0	Nil	0	Unknown
Ding Xiumin (丁秀敏)	3,400,000	7,600,000	0.26	0	Nil	0	Domestic natural person
Li Jianming (李建明)	6,720,747	7,241,847	0.25	0	Nil	0	Domestic natural person

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Shareholding of the top ten shareholders not subject to selling restrictions

Name of shareholders	Number of tradable shares held without selling restrictions	Type and number of shares	
		Type	Number
Shanghai Dazhong Business Management Co., Ltd. (上海大眾企業管理有限公司)	495,143,859	Ordinary shares denominated in RMB	495,143,859
Hong Kong Securities Clearing Company Nominees Limited	478,616,000	Overseas listed foreign shares	478,616,000
Shanghai Gas (Group) Co., Ltd. (上海燃氣(集團)有限公司)	158,674,147	Ordinary shares denominated in RMB	158,674,147
China Life Insurance Company Limited- Traditional-Ordinary Insurance Products -005L-CT001 Shanghai (中國人壽保險股份有限公司-傳統- 普通保險產品-005L-CT001滬)	17,012,283	Ordinary shares denominated in RMB	17,012,283
Central Huijin Asset Management Co., Ltd. (中央匯金資產管理有限責任公司)	11,370,700	Ordinary shares denominated in RMB	11,370,700
China Europe Fund-Ningbo Bank-Junyuan No.1 Stock-type Asset Management Plan (中歐基金-寧波銀行-駿遠1號 股票型資產管理計劃)	10,399,318	Ordinary shares denominated in RMB	10,399,318
Lin Zhuangxi (林莊喜)	10,000,000	Ordinary shares denominated in RMB	10,000,000
Agriculture Bank of China-China Securities 500 Index Fund (中國農業銀行股份有限公司-中證500 交易型開放式指數證券投資基金)	7,814,816	Ordinary shares denominated in RMB	7,814,816
Ding Xiumin (丁秀敏)	7,600,000	Ordinary shares denominated in RMB	7,600,000
Li Jianming (李建明)	7,241,847	Ordinary shares denominated in RMB	7,241,847

Explanations on the connected relationship or parties acting in concert among the above shareholders

The Company is not aware that any top 10 shareholders of tradable shares are connected with each other

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

IV. Particulars of controlling shareholder and de facto controller

(I) Controlling shareholder

1 Legal person

Name	Shanghai Dazhong Business Management Co., Ltd.* (上海大眾企業管理有限公司)
Person-in-charge or legal representative	Zhao Siyuan (趙思淵)
Date of establishment	March 10, 1995
Principal business	Operation management and business management over taxi business and other business, investment, technical consultation, agency, services and talent training, transport of commodity vehicles, retail of vehicle components, taxi passenger service and vehicle repair.
Details of controlling interests and investments in other domestic and foreign-listed companies	Nil

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As of December 31, 2016, so far as is known to the Directors, the persons or entities, other than the Directors, Supervisors or chief executive of the Company, who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who would be required, pursuant to Section 336 of the SFO, to be entered in the register required referred to therein, were as follows:

Name	Nature of interest	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage of interest in the Company	Approximate percentage of relevant class of Shares
Shanghai Dazhong Business Management Co., Ltd.* (上海大眾企業管理有限公司)	Beneficial owner	A Shares	495,143,859 (L)	16.77%	20.47%
Shanghai Dazhong Business Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) ⁽²⁾	Interest of controlled corporations	A Shares	495,143,859 (L)	16.77%	20.47%
Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司),	Beneficial owner	A Shares	158,674,147 (L)	5.37%	6.56%
Shenergy (Group) Company Limited* (申能(集團)有限公司) ⁽³⁾	Interest of controlled corporations	A Shares	158,674,147 (L)	5.37%	6.56%
ENN Energy China Investment Limited ⁽⁴⁾	Beneficial owner	H Shares	129,261,000 (L) ⁽²⁾	4.38%	24.22%
ENN Energy Holdings Limited ⁽⁴⁾	Interest of controlled corporations	H Shares	129,261,000 (L)	4.38%	24.22%
Wang Yusuo (王玉鎖) ⁽⁴⁾	Interest of controlled corporations	H Shares	129,261,000 (L)	4.38%	24.22%
New China Asset Management (Hong Kong) Limited ⁽⁵⁾	Investment manager	H Shares	53,859,000 (L)	1.82%	10.09%
Investstar Limited ⁽⁶⁾	Beneficial owner	H Shares	53,859,000 (L)	1.82%	10.09%
Towngas Investment Company Limited (煤氣投資有限公司) ⁽⁶⁾	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) ⁽⁶⁾	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Faxson Investment Limited ⁽⁶⁾	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Henderson Land Development Company Limited ⁽⁶⁾	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Henderson Development Limited ⁽⁶⁾	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Hopkins (Cayman) Limited ⁽⁷⁾	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
	Beneficiary of a trust				

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name	Nature of interest	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage of interest in the Company	Approximate percentage of relevant class of Shares
Riddick (Cayman) Limited ⁽⁷⁾	Trustee Interest of a controlled corporation	H Shares	53,859,000 (L)	1.82%	10.09%
Rimmer (Cayman) Limited ⁽⁷⁾	Trustee Interest of a controlled corporation	H Shares	53,859,000 (L)	1.82%	10.09%
Lee Chau Kee (李兆基) ⁽⁸⁾	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Keywise Capital Management (HK) Limited	Investment manager	H Shares	53,859,000 (L)	1.82%	10.09%
China International Capital Corporation Hong Kong Securities Limited ⁽⁹⁾	Beneficial owner	H Shares	39,413,450 (L) 71,841,000(S)	1.34% 2.43%	7.39% 13.46%
China International Capital Corporation (Hong Kong) Limited ⁽⁹⁾	Interest of controlled corporations	H Shares	39,413,450 (L) 71,841,000(S)	1.34% 2.43%	7.39% 13.46%
China International Capital Corporation Limited ⁽⁹⁾	Interest of controlled corporations	H Shares	39,413,450 (L) 71,841,000(S)	1.34% 2.43%	7.39% 13.46%
NP2538 Limited ⁽¹⁰⁾	Beneficial owner	H Shares	32,315,000 (L)	1.10%	6.06%
Wang Lan (王嵐) ⁽¹⁰⁾	Interest of controlled corporations	H Shares	32,315,000 (L)	1.10%	6.06%
Ju Min (鞠敏) ⁽¹⁰⁾	Interest of spouse	H Shares	32,315,000 (L)	1.10%	6.06%
Norges Bank	Beneficial owner	H Shares	31,544,000 (L)	1.07%	5.91%

Notes:

- (1) (L) — Long position; (S) — Short position
- (2) Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) is composed of (a) the employees of Shanghai Dazhong Business Management; (b) the employees of our Group; and (c) the employees of Dazhong Transportation Group. It is the beneficial owner of 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in the entire A Shares interests held by Shanghai Dazhong Business Management.
- (3) Shenergy (Group) Company Limited* (申能(集團)有限公司) is the beneficial owner of the entire equity interests in Shanghai Gas Group and is deemed to be interested in the A Shares held by Shanghai Gas Group.
- (4) ENN Energy China Investment Limited is wholly owned by ENN Energy Holdings Limited (Stock Code: 02688.HK). Mr. Wang Yusuo is the controlling shareholder of ENN Energy Holdings Limited. Therefore, each of ENN Energy Holdings Limited and Mr. Wang Yusuo is deemed to be interested in the H Shares held by ENN Energy China Investment Limited under the SFO.
- (5) New China Asset Management (Hong Kong) Limited is owned as to 60.0% by New China Asset Management Company Limited, which is owned as to 99.4% by New China Life Insurance Company Limited (stock code:1336.HK). Therefore each of New China Asset Management Company Limited and New China Life Insurance Company Limited is deemed to be interested in the 53,859,000 H Shares held by New China Asset Management (Hong Kong) Limited.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (6) Investstar Limited is a wholly-owned subsidiary of Towngas Investment Company Limited (煤氣投資有限公司), which is wholly owned by The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) (stock code: 0003.HK). Faxson Investment Limited owns 41.52% of The Hong Kong and China Gas Company Limited, and is a wholly-owned subsidiary of Henderson Land Development Company Limited. Henderson Land Development Company Limited is owned as to 72.7% by Henderson Development Limited. Therefore each of Towngas Investment Company Limited (煤氣投資有限公司), The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司), Faxson Investment Limited, Henderson Land Development Company Limited and Henderson Development Limited is deemed to be interested in the 53,859,000 H Shares held by Investstar Limited under the SFO.
- (7) Hopkins (Cayman) Limited, as trustee of a unit trust (the "Unit Trust"), owns 100% of Henderson Development Limited. Rimmer (Cayman) Limited and Riddick (Cayman) Limited, as trustees of respective discretionary trusts, held units in the Unit Trust. Therefore each of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited is deemed to be interested in the 53,859,000 H Shares held by Investstar Limited under the SFO.
- (8) Lee Shau Kee beneficially owns 100% of each of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Lee Shau Kee is taken to be interested in the H Shares interest of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited, i.e. the 53,859,000 H Shares held by Investstar Limited.
- (9) China International Capital Corporation Hong Kong Securities Limited is wholly owned by China International Capital Corporation (Hong Kong) Limited, which is in turn wholly owned by China International Capital Corporation Limited. Therefore each of China International Capital Corporation (Hong Kong) Limited and China International Capital Corporation Limited is deemed to be interested in the H Shares held by China International Capital Corporation Hong Kong Securities Limited.
- (10) NP2538 Limited is wholly owned by Wang Lan. By virtue of the SFO, Wang Lan and Ju Min (spouse of Wang Lan) is taken to be interested in the 32,315,000 H Shares held by NP2538 Limited.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Below sets out the biographical details of the current Directors, Supervisors and senior management of the Company as of the Latest Practicable Date:

DIRECTORS

Executive Directors

Mr. Yang Guoping (楊國平), aged 60, joined our Company in January 1992 and was appointed as the chairman of the Board and a Director of our Company on January 1, 1992. Mr. Yang is a member of the nomination committee and the remuneration and appraisal committee. He also holds positions in various listed companies, including Dazhong Transportation (Group) Co., Ltd.* (大眾交通(集團)股份有限公司) (Shanghai A share listed; stock code: 600611, “**Dazhong Transportation Group**”), Shanghai Jiaoda Onlly Co., Ltd. (上海交大昂立股份有限公司) (Shanghai A share listed; stock code: 600530, “**Shanghai Jiaoda Onlly**”), Shanghai Jiao Yun Group Co., Ltd. (上海交運集團股份有限公司) (Shanghai A share listed; stock code: 600676; “**Shanghai Jiao Yun**”), Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司) (Shenzhen listed; stock code: 002454), Everbright Securities Company Limited (光大證券股份有限公司) (Shanghai A share listed; stock code: 601788 and Hong Kong listed; stock code: 6178), Nanjiang Public Utilities Development Co., Ltd. (南京公用發展股份有限公司) (formerly known as Nanjing Zhongbei Group Co., Ltd. (南京中北(集團)股份有限公司) (Shenzhen listed; stock code: 000421) and Shanghai Shentong Metro Group Co., Ltd. (上海申通地鐵股份有限公司) (Shanghai A share listed; stock code: 600834). Mr. Yang was granted the title of senior economist by Shanghai Expertise Qualification Review Committee, Economics Series (Sphere of Production) (上海市經濟系列(生產領域)高級專業技術職務任職資格評審委員會) in April 1995. Mr. Yang is currently the council executive director (理事會常務理事) of China Association for Public Companies* (中國上市公司協會) and council vice president (理事會副會長) of The Listed Companies Association of Shanghai (上海上市公司協會). He is also the honorary president of the seventh Shanghai Youth Entrepreneurs Association (上海市青年企業家協會), vice chairman of the eighth commission of Shanghai Youth Federation (上海市青年聯合會) and vice president of China Taxicab and Livery Association (中國出租汽車暨汽車租賃協會). Mr. Yang was accredited as one of the top ten national outstanding young entrepreneurs* (全國十大傑出青年企業家) by the Central Communist Youth League Organization Department (共青團中央) and the China Youth Entrepreneurs Association (中國青年企業家協會) in November 1995. He was honored as national labor model* (全國勞動模範) by the PRC State Council* (中華人民共和國國務院) in April 2000. Mr. Yang was accredited as one of the outstanding quality individual in the PRC (中國傑出質量人) by China Quality Association* (中國質量協會) in October 2005. He is accredited as China influential MBA individual* (中國MBA風雲人物) in December 2006. He also received the EY Entrepreneur Of The Year 2013* (安永企業家獎2013大獎) accredited by Ernst & Whinney in November 2013. Mr. Yang was honored as the Outstanding Entrepreneur (傑出企業家) by the first session of China (Shanghai) Listing Companies’ Social Liabilities Summit (首屆中國(上海)上市公司企業社會責任峰會) in December 2015. Mr. Yang received a master degree in business administration from Shanghai Jiao Tong University (上海交通大學) in July 1997.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhong Jinxing (鍾晉倅), aged 62, joined our Company in April 1999 and was appointed as a Director of our Company on April 8, 1999. He is also the vice chairman of the Board and chief financial officer of our Company. Mr. Zhong used to be our chief financial officer from April 1999 to May 2011 before he was re-appointed as our chief financial officer on May 8, 2015. He also served as our secretary to the Board from May 2002 to April 2008 and our vice general manager from May 2011 to April 2014. Mr. Zhong has been the supervisor of Dazhong Transportation Group since May 1997. He was granted the title of accountant by Shanghai Title Reform Leading Group* (上海市職稱改革工作領導小組) in August 1988. Mr. Zhong obtained a bachelor degree in finance and accounting from Shanghai University (上海大學) in June 1991. He completed the master course in international economic and trade and investment environment from East China Normal University (華東師範大學) and graduated in July 1998.

Mr. Liang Jiawei (梁嘉璋), aged 43, joined our Company in September 2000 and was appointed as a Director of our Company on July 28, 2015. He has been the chief executive officer of our Company since June 2015 and used to serve as the manager of our investment and development department from January 2006 to June 2016, our secretary to the Board from April 2008 to June 2015 and our vice general manager from April 2014 to June 2015. Mr. Liang has been the director of Dazhong Transportation Group since April 2016 and the director of Shanghai Jiaoda Onlly since June 2015. He was granted the title of economist (finance) by PRC Ministry of Personnel* (中華人民共和國人事部) in November 2000. Mr. Liang served as clerk of the general managers' office of Shanghai Jiao Yun from July 1995 to March 1999. He was accredited twice as outstanding secretary to the board* (優秀董事會秘書) by The Listed Companies Association of Shanghai (上海上市公司協會) in April 2013 and May 2015, respectively. Mr. Liang was accredited as the excellent secretary to the board of listed companies* (上市公司優秀董秘) in the eighth, ninth and tenth selection of New Fortune Gold Medal Secretary to the Board* (新財富金牌董秘) held by the New Fortune magazine* (新財富雜誌). He was also accredited as one of the 100 Best Board Secretaries of companies Listed on the Main Board of China in 2013* (2013年度中國主板上市公司百佳董秘) by Securities Times* (《證券時報》) in September 2014. Mr. Liang obtained a bachelor degree in administrative management from Shanghai University (上海大學) in July 1995 and a master degree in business administration from Preston University in the United States in November 2002.

Ms. Yu Min (俞敏), aged 56, joined our Company in May 1999 and was appointed as Director of our Company on July 28, 2015. She used to be the manager of our human resources department from May 1999 to June 2016 and the employee representative Supervisor of our Company from May 2002 to July 2015. She has been our labor union president since August 2002, administrative director since April 2008 and party branch secretary since May 2011. She was granted the title of economist by Shanghai Title Reform Leading Group* (上海市職稱改革工作領導小組) in December 1993. She is also accredited as Senior Operating Manager (高級經營師) by China General Chamber of Commerce* (中國商業聯合會) in May 2012. Ms. Yu obtained a Master of Science degree in training and development from Saint Joseph's University in the United States in July 2003.

Mr. Yang Jicai (楊繼才), aged 58, joined our Company in May 2004 and was appointed as a Director of our Company on May 19, 2011. He served as assistant to chief executive officer of our Company from May 2004 to May 2005 and has been the vice general manager of our Company since August 2005. Mr. Yang served as director of China United Travel Company Limited (國旅聯合股份有限公司) (Shanghai A share listed; stock code: 600358) from December 1998 to April 2005. He graduated from Shanghai Medical Devices College* (上海醫療器械工業專科學校) (currently known as Shanghai Health Medical College* (上海健康醫學院)) in July 1981, majoring in machinery. Mr. Yang graduated from Shanghai Administrative Management Leader College* (上海市行政管理幹部學院) (currently known as Shanghai Administrative College* (上海行政學院)) in July 1990, majoring in administrative management. He completed the master course in international economy and trade and investment environment from East China Normal University (華東師範大學) and graduated in July 1997.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhuang Jianhao (莊建浩), aged 55, joined our Company in January 2002 and served in various positions responsible for technology and management of our gas supply business sector. He was the assistant to chief executive officer from January 2002 to April 2008, a former Director from May 2002 to May 2003, a vice general manager from May 2002 to April 2008, and the chief technology officer from April 2008 to April 2014. Mr. Zhuang was re-appointed as a Director and vice general manager of our Company in April 2014. Mr. Zhuang has been the director of Suchuang Gas Corporation Limited (Hong Kong listed; stock code: 01430) since June 2016. He was granted the title of senior engineer by Shanghai Title Reform Leading Group* (上海市職稱改革工作領導小組) in December 1995. Mr. Zhuang obtained a bachelor degree in coal chemical industry from East China Chemical Industry College* (華東化工學院) (currently known as East China University of Science and Technology* (華東理工大學)) in July 1983. He attended a joint master program in business administration from the University of Canberra in Australia and the East China University of Science and Technology* (華東理工大學) and received master degrees in July and August 2004, respectively.

Non-executive Director

Mr. Li Songhua (李松華), aged 56, joined our Company in May 2011 and has been a Director of our Company since then. Mr. Li has served Shanghai Gas Group (our Shareholder) as the manager of human resources department since December 2003, as party committee member (黨委委員) from June 2011 to April 2012, and as vice party secretary (黨委副書記), secretary of discipline committee (紀委書記) and labor union president (工會主席) since April 2012 and served as the chairman of Shanghai Rinnai Co., Ltd.* (上海林內有限公司) since December 2013. He was granted the title of master of political work (政工師) by Corporate Ideological and Political Work Qualification Review Committee* (企業思想政治工作人員專業職務評審委員會) in November 1995. Mr. Li graduated from Shanghai Huangpu District Amateur University* (上海黃浦區業餘大學) in July 1990. He obtained a master degree in business administration from Macau University of Science and Technology in October 2004.

Independent non-executive Directors

Mr. Cai Jianmin (蔡建民), aged 72, joined our Company in June 2010 and has been an independent non-executive Director of our Company since then. He is a member of the nomination committee and the remuneration and appraisal committee and the chairman of audit committee. Mr. Cai has been the independent non-executive director of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司) (Shanghai A share and B share listed; A share stock code: 600822; B share stock code: 900927) from May 2007 to May 2010, Shanghai Jiaoda Only from October 2007 to June 2015, Kama Co., Ltd. (恒天凱馬股份有限公司) (Shanghai B share listed; stock code: 900953) from June 2008 to October 2014, Hengdeli Holdings Limited (亨得利控股有限公司) (Hong Kong listed; stock code: 03389) since July 2004, Shanghai No. 1 Pharmacy Co., Ltd. (上海第一醫藥股份有限公司) (Shanghai A share listed; stock code: 600833) from June 2009 to August 2016, and Shanghai Kaichuang Marine International Co., Ltd. (上海開創國際海洋資源股份有限公司) (Shanghai A share listed; stock code: 600097) since December 2008. He received the certificate of government special allowance* (政府特殊津貼證書) granted by the State Council of the People's Republic of China (中華人民共和國國務院) in June 2000. Mr. Cai won the second prize for outstanding teaching achievements* (上海市教學成果二等獎) awarded by the Shanghai Education Committee* (上海市人民政府教育委員會) in April 1998. He was also granted the title of senior accountant by Shanghai Expertise Qualification Review Committee, Accounting Series* (上海市會計系列高級專業技術職務任職資格評審委員會) in December 1998 and the title of vice professor in accounting by Shanghai Expertise Qualification Review Committee, College Professors* (上海市高等學校教師高級專業技術職務任職資格評審委員會) in June 1994. He was also accredited as a non-practicing member by Shanghai Institute of Certified Public Accountants* (上海市註冊會計師協會) in November 1994.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chow Siu Lui (鄒小磊), aged 56, joined our Company and was appointed as an independent non-executive Director of our Company in April 2016. Mr. Chow has served as managing director of private equity team and is currently a partner of VMS Investment Group Limited* (鼎佩投資集團有限公司) since April 2012. Mr. Chow has been the independent non-executive director of NWS Holdings Limited (新創建集團有限公司) (Hong Kong listed; stock code: 00659) from March 2012 to June 2012, Kong Shum Union Property Management (Holding) Limited (Hong Kong listed; stock code: 8181) from February 2015 to October 2015, Fullshare Holdings Limited (Hong Kong listed; stock code: 00607) since December 2013, Universal Medical Financial & Technical Advisory Services Company Limited (Hong Kong listed; stock code: 2666) since June 2015 and Sinco Pharmaceuticals Holdings Limited (Hong Kong listed stock code: 6833) since September 2015. Mr. Chow obtained his qualification as a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) in July 1991, the Hong Kong Institute of Certified Public Accountants (香港會計師公會) ("HKICPA", formerly known as Hong Kong Society of Accountants) in December 1993, the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) ("HKICS") in 2009, and the Institute of Chartered Secretaries and Administrators (英國特許秘書及行政人員公會) in 2009. Mr. Chow was appointed as the chairman of the mainland development strategies advisory panel and a member of the registration and practicing committee of the HKICPA for the year 2016 in February 2016. Mr. Chow was appointed as a council member and chairman of audit committee of the HKICS in December 2015. He obtained a professional diploma in accountancy from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1983.

Mr. Yan Xuehai (顏學海), aged 46, joined our Company in April 2014 and was appointed as an independent non-executive Director of our Company in April 2014. He is a member of the audit committee. Mr. Yan served as law school part-time professor of Shanghai Jiao Tong University (上海交通大學) from October 2013 to October 2016. Mr. Yan has been the senior partner and director (主任) of Shanghai Hiways Law Offices* (上海市海華永泰律師事務所) since February 2002 and the arbitrator of Shanghai Arbitration Commission* (上海仲裁委員會) since December 2012. He has been the independent non-executive director of Tibet Urban Development and Investment Co., LTD (西藏城市發展投資股份有限公司) (Shanghai A share listed; stock code: 600773) from December 2009 to May 2015, Shenergy Company Limited (申能股份有限公司) (Shanghai A share listed; stock code: 600642) since April 2012 and Shanghai Tunnel Engineering Co., Ltd.* (上海隧道工程股份有限公司) (Shanghai listed; stock code: 600820) since October 2015. He served as the member of the first session of the Standing Committee of Venture Capital Professional of the Chinese Technology Finance Development Association (中國科技金融促進會風險投資專業委員會委員) in February 2001. He was accredited as China's best financial lawyer of the year* (2008年度最佳私募股權金融律師) by 2008 Asia Pacific International Finance Forum* (2008年亞太國際金融論壇) in December 2008. He was honored as oriental lawyer of the second session* (第二屆「東方大律師」) by Shanghai Justice Bureau* (上海市司法局) and Shanghai Bar Association* (上海市律師協會) in March 2011. Mr. Yan received the certificate to practice as PRC lawyer accredited by Shanghai Changning District Bureau of Justice* (上海市長寧區司法局) in September 1998. He obtained a bachelor degree in forging technology and equipment from Northeast Heavy Machinery Institute* (東北重型機械學院) (currently known as Yanshan University* (燕山大學)) in July 1993 and another bachelor degree in international economic law from Fudan University* (復旦大學) in July 1997. Mr. Yan obtained a master degree in international law from the Renmin University of China* (中國人民大學) in April 2006.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yao Cho Fai Andrew (姚祖輝), aged 51, joined our Company in July 2015 and was appointed as an independent non-executive Director of our Company on July 28, 2015. Mr. Yao is the chairman of nomination committee and remuneration and appraisal committee, and member of audit committee. Mr. Yao has been the chairman, executive director and chairman of the nomination committee and member of the remuneration committee of Hong Kong Shanghai Alliance Holdings Limited (formerly known as Van Shung Chong Holdings Limited) (Hong Kong listed; stock code: 1001) since January 1994. Mr. Yao has been the independent non-executive director of Grand Investment International Ltd. (Hong Kong listed; stock code: 1160) from February 2004 to June 2009, non-executive director of North Asia Strategic Holdings Limited (Hong Kong listed; stock code: 8080) from June 2008 to September 2011 and independent non-executive director of Kader Holdings Company Limited (Hong Kong listed; stock code: 180) since September 2004. He obtained a bachelor degree in business management from the University of California, Berkeley in May 1988 and a master degree in business administration from Harvard University in June 1992. He serves as the Hong Kong Deputy to the 12th National People's Congress (NPC) of PRC* (第十二屆港區全國人大代表), the chairman of Hong Kong-Shanghai Economic Development Association* (滬港經濟發展協會), the board member of Lingnan University (嶺南大學) in Hong Kong, the vice-chairman of Shanghai Federation of Industry & Commerce* (上海市工商業聯合會) and the board member of Fudan University* (復旦大學) in Shanghai. He was awarded Young Industrialist Award of Hong Kong* (香港青年工業家獎) by Federation of Hong Kong Industries in 2004. He was also awarded Justice of Peace* (太平紳士) by the Hong Kong government in 2008.

SUPERVISORS

Ms. Cao Yongqin (曹永勤), aged 59, joined our Company in April 1999 and has been the chairman of the Supervisory Committee since then. Ms. Cao has been the general accountant of Shanghai Jiaoda Onlly from January 1998 to November 2001 and general economist and supervisor of Dazhong Transportation Group from December 2001 to July 2005. Ms. Cao has been the independent non-executive director of Shanghai Xujiahui Commercial Co., Ltd. (上海徐家匯商城股份有限公司) (Shenzhen listed; stock code: 002561) since April 2014. She was granted the title of vice professor by Expertise Qualification Review Committee, Shanghai Jiaotong University* (上海交通大學高級專業技術職務任職資格評審委員會) in December 1993 and was accredited as a non-practising member by Shanghai Institute of Certified Public Accountants* (上海市註冊會計師協會) in December 2010. Ms. Cao graduated from Nanjing University (南京大學) in July 1981, majoring in economic management and obtained a master degree in business administration from Oklahoma City University in the United States in December 1986.

Ms. Zhao Siyuan (趙思淵), aged 45, joined our Company in April 2014 and was appointed as Supervisor of our Company in April 2014. Ms. Zhao has been the manager of legal department from July 1993 to August 2008, secretary to the board since August 2008 and director and vice general manager since May 2015 of Dazhong Transportation Group and the chairman of Shanghai Dazhong Business Management (our Shareholder) since June 2013. Ms. Zhao is accredited as excellent secretary to the board* (優秀董事會秘書) by The Listed Companies Association of Shanghai* (上海上市公司協會) in May 2015. Ms. Zhao obtained a bachelor degree in law from Shanghai University* (上海大學) in July 1993.

Mr. Yang Weibiao (楊衛標), aged 47, joined our Company in March 2004. He served in various positions and was appointed as the assistant to chief executive officer of our Company in May 2014. He was further appointed as employee representative Supervisor on July 10, 2015. Mr. Yang has been the assistant manager of investment and development department of Dazhong Transportation Group from November 2000 to February 2004. Mr. Yang obtained a bachelor degree in politics and administration from Fudan University* (復旦大學) in July 1992 and a master degree in economics from Fudan University* (復旦大學) in July 1999.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Four of our executive Directors, namely Mr. Liang Jiawei (梁嘉璋), Mr. Zhong Jinxing (鐘晉倅), Mr. Yang Jikai (楊繼才) and Mr. Zhuang Jianhao (莊建浩), concurrently hold senior management positions in our Group. For each of their biographies, please refer to this section above.

Ms. Zhao Fei (趙飛), aged 38, joined our company in February 2004 and was appointed as secretary to the Board in June 2015. She has been a legal staff of our Company and has been the manager of our legal department since March 2014. She was further promoted as secretary to the Board on June 18, 2015. Ms. Zhao has been the in-house legal assistant of Dazhong Transportation Group from July 2000 to December 2003. Ms. Zhao passed the PRC judicial exam and received the qualification of legal profession (法律職業資格證) by Ministry of Justice of the People's Republic of China (中華人民共和國司法部) in February 2007. Ms. Zhao obtained a bachelor degree in law from Shanghai University of Finance and Economics (上海財經大學) in July 2000 and a master degree in law from Fudan University (復旦大學) in January 2011.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The Company received a resignation letter from Mr. Yan Xuehai (顏學海) resigning as an independent non-executive Director and the member of the audit committee of the Company due to his health condition on February 20, 2017. According to the Guidelines for the Establishment of Independent Directors System by Listed Companies issued by the China Securities Regulatory Commission, Mr. Yan's resignation shall not take effect until the election of a new independent non-executive Director at the general meeting of the Company.

Ms. Zhao Fei (趙飛) resigned as secretary to the Board due to her health condition. She will remain as the manager of the legal department of the Company. Ms. Zhao Fei resigned as Secretary of the Board of Directors of the Company, so Mr. Jin Bo serves as Secretary of the Board of Directors.

Mr. Jin Bo (金波), aged 45, joined the Company in May 2010 as the investment director and served as a director and the general manager of Shanghai Dazhong Group Capital Equity Investment Co., Ltd.* (上海大眾集團資本股權投資有限公司), a subsidiary of the Company, until September 2015. From May 2013 to September 2015, he served as a director, the secretary to the board of directors and the deputy general manager of Shanghai Electronic Intelligence System Co., Ltd.* (上海電科智能系統股份有限公司), a company in which the Company held an interest. He served as the general manager of Shanghai Huiying Asset Management Co., Ltd.* (上海匯映資產管理有限公司) from September 2015 to May 2016 and the secretary to the board of directors and assistant to the president of China Grand Automotive Services Co., Ltd.* (廣匯汽車服務股份公司) from May 2016 to September 2016. Mr. Jin Bo rejoined the Company in September 2016 as the investment director and has served as the Secretary to the Board and investment director of the Company since March 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AT THE SHAREHOLDERS ENTITIES

The table below sets out the positions held by current and resigned Directors, Supervisors and senior management of the Company at the Shareholders entities of the Company:

(I) Positions in shareholders entities

Name	Name of shareholder entities	Position held in shareholder entities	Commencement date of term	Cessation date of term
Zhao Xiyuan (趙思淵)	Shanghai Dazhong Business Management Co., Ltd.* (上海大眾企業管理有限公司)	Chairman	June 2, 2014	–
Li Songhua (李松華)	Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司)	Vice party secretary (黨委副書記), secretary of discipline committee (紀委書記), labor union president, manager of human resources department	June 1, 2012	–

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AT OTHER ENTITIES

The table below sets out the positions held by current and resigned Directors, Supervisors and senior management of the Company in other entities:

(I) Positions in other entities

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Yang Guoping (楊國平)	Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司)	Chairman and General Manager	May 15, 2015	May 14, 2018
Yang Guoping (楊國平)	Shanghai Jiaoda Onlly Co., Ltd. (上海交大昂立股份有限公司)	Chairman	June 25, 2015	June 24, 2018
Yang Guoping (楊國平)	Shanghai Dazhong Gas Co., Ltd. (上海大眾燃氣有限公司)	Chairman	September 28, 2001	–
Yang Guoping (楊國平)	Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司)	Vice Chairman	May 25, 2012	–
Yang Guoping (楊國平)	Shanghai Jian Yun Group Co., Ltd. (上海交運集團股份有限公司)	Director	April 18, 2016	April 17, 2019
Yang Guoping (楊國平)	Everbright Securities Co. Ltd (光大證券股份有限公司)	Director	September 15, 2014	September 14, 2017
Yang Guoping (楊國平)	Nanjiang Public Utilities Development Co., Ltd. (南京公用發展股份有限公司)	Director	May 20, 2015	May 19, 2018

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Yang Guoping (楊國平)	Songz Automobile Air Conditioning Co., Ltd. (上海加冷松芝汽車空調股份有限公司)	Director	May 15, 2014	May 14, 2017
Yang Guoping (楊國平)	HFT Investment Management Co., Ltd. (海富通基金管理有限 公司)	Independent Director	March 16, 2016	March 16, 2019
Yang Guoping (楊國平)	Shanghai Shentong Metro Group Co., Ltd. (上海申通地鐵股份有限 公司)	Independent Director	May 16, 2014	May 15, 2017
Zhong Jinxing (鍾晉倅)	Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限 公司)	Supervisor	May 15, 2015	May 14, 2018
Zhong Jinxing (鍾晉倅)	Hainan Dazhong Ocean Industry Co., Ltd. (海南大眾海洋 產業有限公司)	Chairman	April 25, 2012	–
Zhong Jinxing (鍾晉倅)	Shanghai Minhang Dazhong Micro-credit Co., Ltd. (上海閔行大眾小額貸款股份有限 公司)	Chairman	June 2013	–
Zhong Jinxing (鍾晉倅)	Shanghai Dazhong Group Capital Equity Investment Co., Ltd. (上海大眾集團資本股權投資有限 公司)	Vice Chairman	April 22, 2010	–
Zhong Jinxing (鍾晉倅)	Shanghai Dazhong Gas Co., Ltd. (上海大眾燃氣有限公司)	Supervisor	September 28, 2001	–
Liang Jiawei (梁嘉璋)	Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限 公司)	Director	May 15, 2015	May 14, 2018
Liang Jiawei (梁嘉璋)	Shanghai Jiaoda Only Co., Ltd. (上海交大昂立股份有限 公司)	Director	June 25, 2015	June 24, 2018
Liang Jiawei (梁嘉璋)	Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限 公司)	Director	July 2015	–
Liang Jiawei (梁嘉璋)	Shanghai Dazhong Financial Leasing Co., Ltd. (上海大眾融資租賃有限 公司)	Vice Chairman	December 24, 2014	December 23, 2017
Liang Jiawei (梁嘉璋)	Shanghai Dazhong Group Capital Equity Investment Co., Ltd. (上海大眾集團資本股權投資有限 公司)	Vice Chairman	April 22, 2010	–
Liang Jiawei (梁嘉璋)	Shanghai Electronic Intelligence System Co., Ltd. (上海電科智能系統股份有限 公司)	Vice Chairman	March 2015	–
Yu Min (俞敏)	Hainan Dazhong Ocean Industry Co., Ltd. (海南大眾海洋 產業有限公司)	Director	April 25, 2012	–
Yu Min (俞敏)	Shanghai Dazhong Group Capital Equity Investment Co., Ltd. (上海大眾集團資本股權投資有限 公司)	Supervisor	April 22, 2010	–
Yu Min (俞敏)	Shanghai Dazhong Asset Management Co., Ltd. (上海大眾資產管理有限 公司)	Supervisor	August 8, 2014	August 7, 2017
Yang Jicai (楊繼才)	Jiangsu Dazhong Water Group Co., Ltd. (江蘇大眾水務集 團有限公司)	Chairman	April 7, 2016	–
Yang Jicai (楊繼才)	Shanghai Dazhong Environment Industry Co., Ltd. (上海大眾環境產業有限 公司)	Chairman	July 14, 2003	–

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Yang Jicai (楊繼才)	Shanghai Xiangyin Road Tunnel Construction Development Co., Ltd. (上海翔殷路隧道建設發展有限公司)	Chairman	August 2015	–
Yang Jicai (楊繼才)	Shanghai Dazhong Jiading Sewage Co., Ltd. (上海大眾嘉定污水處理有限公司)	Chairman	March 2006	–
Yang Jicai (楊繼才)	Xiaoshan Qiantang Sewage Co., Ltd. (蕭山錢塘污水處理有限公司)	General Manager	February 2004	–
Zhuang Jianhao (莊建浩)	Shanghai Dazhong Gas Co., Ltd. (上海大眾燃氣有限公司)	Director, Vice General Manager	April 2013	–
Zhuang Jianhao (莊建浩)	Suchuang Gas Corporation Limited (蘇創燃氣股份有限公司)	Non-executive director	June 30, 2016	June 29, 2019
Li Songhua (李松華)	Shanghai Rinnai Co., Ltd. (上海林內有限公司)	Chairman	December 12, 2013	–
Cai Jianmin (蔡建民)	Shanghai Kaichuang Marine International Co., Ltd. (上海開創國際海洋資源股份有限公司)	Independent Director	January 22, 2014	–
Cai Jianmin (蔡建民)	Hengdeli Holdings Limited (亨得利控股有限公司)	Independent Director	July 2013	–
Yao Cho Fai Andrew (姚祖輝)	Hong Kong Shanghai Alliance Holdings Limited (滬港聯合控股有限公司)	Chairman	January 1994	–
Yao Cho Fai Andrew (姚祖輝)	Kader Holdings Company Limited (開達集團有限公司)	Independent non-executive director	September 2004	–
Chow Siu Lui (鄧小磊)	VMS Investment Group Limited (鼎佩投資集團有限公司)	Partner	April 2012	–
Chow Siu Lui (鄧小磊)	Fullshare Holdings Limited (豐盛控股有限公司)	Independent non-executive director	December 2013	–
Chow Siu Lui (鄧小磊)	Universal Medical Financial & Technical Advisory Services Company Limited (環球醫療金融與技術諮詢服務有限公司)	Independent non-executive director	June 2015	–
Chow Siu Lui (鄧小磊)	Sinco Pharmaceuticals Holdings Limited (興科蓉醫藥控股有限公司)	Independent non-executive director	September 2015	–
Cao Yongqin (曹永勤)	Shanghai Xujiahui Commercial Co., Ltd. (上海徐家匯商城股份有限公司)	Independent Director	April 15, 2014	April 14, 2017
Yang Weibiao (楊衛標)	Shanghai Minhang Dazhong Micro-credit Co., Ltd. (上海閔行大眾小額貸款股份有限公司)	Director	June 5, 2013	–
Yang Weibiao (楊衛標)	Jiangsu Dazhong Water Group Co., Ltd. (江蘇大眾水務集團有限公司)	Director	April 7, 2016	–

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

To the best knowledge of the Directors, as of December 31, 2016, the beneficial interests or short positions of the Directors, Supervisors and the chief executives in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein; or (c) pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

Long position and short position in the shares, underlying shares and debentures of the Company or its associated corporations

Long Position:

Name	Nature of interest	Number of Shares held	Class of Shares	Approximate % of Interest in the Company	Approximate % of the relevant class of Shares
Mr. YANG Guoping (楊國平) ⁽¹⁾⁽⁹⁾	Beneficial owner	2,097,861	A Shares	0.07%	0.09%
Mr. ZHONG Jinxing (鍾晉倅) ⁽²⁾⁽⁹⁾	Beneficial owner	495,059	A Shares	0.02%	0.02%
Mr. LIANG Jiawei (梁嘉璋) ⁽³⁾⁽⁹⁾	Beneficial owner	222,300	A Shares	0.01%	0.01%
Ms. YU Min (俞敏) ⁽⁴⁾⁽⁹⁾	Beneficial owner	712,621	A Shares	0.02%	0.03%
Mr. YANG Jicai (楊繼才) ⁽⁵⁾⁽⁹⁾	Beneficial owner	500,306	A Shares	0.02%	0.02%
Mr. ZHUANG Jianhao (莊建浩) ⁽⁶⁾⁽⁹⁾	Beneficial owner	115,000	A Shares	0.00%	0.00%
Ms. CAO Yongqin (曹永勤) ⁽⁷⁾⁽⁹⁾	Beneficial owner	57,387	A Shares	0.00%	0.00%
Mr. YANG Weibiao (楊衛標) ⁽⁸⁾⁽⁹⁾	Beneficial owner	54,000	A Shares	0.00%	0.00%

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Notes:

- (1) Mr. Yang Guoping (楊國平) holds 14,229,800 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) (the "Employee Share Ownership Committee"), representing 9.55% of the total number of shares of the Employee Share Ownership Committee.
- (2) Mr. Zhong Jinxing (鍾晉倅) holds 611,500 shares in the Employee Share Ownership Committee, representing 0.41% of the total number of shares of the Employee Share Ownership Committee.
- (3) Mr. Liang Jiawei (梁嘉璋) holds 112,100 shares in the Employee Share Ownership Committee, representing 0.07% of the total number of shares of the Employee Share Ownership Committee.
- (4) Ms. Yu Min (俞敏) holds 949,000 shares in the Employee Share Ownership Committee, representing 0.63% of the total number of shares of the Employee Share Ownership Committee.
- (5) Mr. Yang Jicai (楊繼才) holds 137,600 shares in the Employee Share Ownership Committee, representing 0.09% of the total number of shares of the Employee Share Ownership Committee.
- (6) Mr. Zhuang Jianhao (莊建浩) holds 50,000 shares in the Employee Share Ownership Committee, representing 0.03% of the total number of shares of the Employee Share Ownership Committee.
- (7) Ms. Cao Yongqin (曹永勤) holds 669,200 shares in the Employee Share Ownership Committee, representing 0.44% of the total number of shares of the Employee Share Ownership Committee.
- (8) Mr. Yang Weibiao (楊衛標) holds 164,000 shares in the Employee Share Ownership Committee, representing 0.11% of the total number of shares of the Employee Share Ownership Committee.
- (9) The Employee Share Ownership Committee is the beneficial owner of the 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in 495,143,859 A Shares held by Shanghai Dazhong Business Management.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INFORMATION OF SHAREHOLDING AND REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. Changes in shareholding and remuneration

(I) Changes in shareholding of current and resigned directors, supervisors and senior management and their remunerations during the Reporting Period

Unit: share

Name	Position (Note)	Gender	Age	Commencement date of the term	Cessation date of the term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in shares held for the year	Total remuneration before tax received from the Group during the Reporting Period (RMB Thousand)	Whether he/she received remuneration from the Company's related parties
Yang Guoping (楊國平)	Chairman of the Board of Directors	Male	60	2014.4.29	2017.4.29	2,097,861	2,097,861	0	4,504	Yes
Zhong Jinxing (鍾晉祥)	Vice Chairman of the Board of Directors	Male	62	2014.4.29	2017.4.29	495,059	495,059	0	2,988	No
Liang Jiawei (梁嘉偉)	Executive Director, President	Male	43	2015.7.10	2017.4.29	222,300	222,300	0	3,535	No
Yu Min (俞敏)	Executive Director, Party Branch Secretary	Female	56	2015.7.10	2017.4.29	712,621	712,621	0	3,132	No
Yang Jicai (楊繼才)	Executive Director, Vice President	Male	58	2014.4.29	2017.4.29	500,306	500,306	0	2,443	No
Zhuang Jianhao (莊建浩)	Executive Director, Vice President	Male	55	2014.4.29	2017.4.29	115,000	115,000	0	2,040	No
Li Songhua (李松華)	Non-executive Director	Male	56	2014.4.29	2017.4.29	0	0	0	-	Yes
Cai Jianmin (蔡建民)	Independent Non-executive Director	Male	72	2014.4.29	2017.4.29	0	0	0	-	No
Yan Xuehai (顏學海)	Independent Non-executive Director	Male	46	2014.4.29	2017.2.20	0	0	0	100	No
Yao Cho Fai Andrew (姚祖輝)	Independent Non-executive Director	Male	51	2015.7.10	2017.4.29	0	0	0	100	No
Chow Siu Lui (鄒小蕊)	Independent Non-executive Director	Male	56	2016.4.15	2017.4.29	0	0	0	-	No
Cao Yongqin (曹永勤)	Chairman of the Board of Supervisors	Female	58	2014.4.29	2017.4.29	57,387	57,387	0	100	No
Zhao Siyuan (趙思源)	Supervisor	Female	45	2014.4.29	2017.4.29	0	0	0	-	Yes
Yang Weibiao (楊衛標)	Employee Supervisor	Male	47	2015.7.10	2017.4.29	54,000	54,000	0	1,281	No
Zhao Fei (趙飛)	Secretary to the Board	Female	38	2015.6.18	2017.2.14	50,000	50,000	0	967	No
Jiang Guofang (姜國芳)	Then Independent Non-executive Director	Male	59	2014.4.29	2016.4.15	0	0	0	-	No
Jin Bo (金波)	Current Secretary to the Board and investment director	Male	45	2017.2.28	2017.4.29	0	0	0	105	No
Total	/	/	/	/	/	4,304,534	4,304,534	0	21,295	/

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

PROCEDURE FOR DETERMINING REMUNERATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND REMUNERATIONS PAID

II. Remunerations of Directors, Supervisors and Senior Management

Decision-making process of remunerations of directors, supervisors and senior management	The remuneration plans of the salaried Directors, Supervisors and Senior Management are considered at the annual Remuneration and Appraisal Committee under the Board and submitted to the Board for confirmation. Remunerations of Directors, Supervisors and Senior Management are paid on an annual basis and linked to the Company's operating performance. The remuneration will be resolved and distributed by the Remuneration and Appraisal Committee under the Board after submission to the Board for confirmation, with reference to the audited results at the end of the year. The allowance level for independent Directors will be formulated by the Board and approved by the shareholders' general meeting of the Company.
Basis for determination of remunerations of directors, supervisors and senior management	In accordance with the principle of efficiency, incentives and fairness, the Company links the remunerations of Directors, Supervisors and Senior Management to the Company's operating performance with reference to the audited financial report at the end of the year. The remunerations of some of the Directors and Senior Management, who are the directors or general managers of the Company's wholly-owned or controlling subsidiaries, are also determined with reference to their annual performance appraisal target (task) book (年度績效考核目標(任務)書) signed with the Company.
Actual amount of remunerations paid to directors, supervisors and senior management	Actual amount of remunerations paid to Directors, Supervisors and Senior Management of the Company for 2016 was based on the 2016 operation management performance appraisal plan considered and approved by the Remuneration and Appraisal Committee under the Board and confirmed by the Board as well as the annual performance appraisal target (task) book (年度績效考核目標(任務)書) signed. The allowance for independent Directors was paid in accordance with the working allowance standard for independent directors approved at the shareholders' general meeting.
Total remunerations actually received by all directors, supervisors and senior management at the end of the Reporting Period	Total remunerations actually received by all directors, supervisors and senior management at the end of the Reporting Period amounted to RMB20,906,000.

During the Reporting Period, none of the Directors or Supervisors waived or agreed to waive any remuneration.

2016

DaZhong Public Utilities

大众公用

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EMPLOYEES OF THE GROUP

General

Remuneration Policies for Employees

Performance-oriented remuneration linked mechanism was implemented. Remuneration gaps exist as growth, returns and nature of operation of different industries vary, achieving remuneration and performance linked mechanism.

Training

The Company formulated plans for job requirements and enhancement of professional capabilities for different targets. The Company focused on trainings in relation to policies and regulations, professional ethics and overall market capabilities for operation staff; and focused on relevant job trainings for functional department management on the basis of qualifications.

CORPORATE GOVERNANCE REPORT

BASIC INFORMATION ON CORPORATE GOVERNANCE

As a dual-listed company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the Company has remained in strict compliance with the Articles of Association, relevant laws and regulations in the PRC and Shanghai Listing Rules during the Reporting Period. Since the Listing of the Company's H Shares on the Main Board of the Hong Kong Stock Exchange on December 5, 2016, the Company has also complied with the Hong Kong Listing Rules. The Company is committed to rigorous corporate governance and risk management.

I. Corporate Governance

During the Reporting Period, the Company strictly followed the Company Law, Securities Law, Code of Corporate Governance for Listed Companies in China, Code of Corporate Governance and Corporate Governance Report under Appendix 14 of the Hong Kong Listing Rules and relevant laws and regulations promulgated by the CSRC, the Shanghai Stock Exchange and the Hong Kong Stock Exchange as well as the requirements under the Articles of Association of the Company. The corporate governance structure was constantly optimized to enhance company operation. Currently, the Company has formed a governance mechanism of clear authorities and responsibilities, operation regulation, mutual coordination and balance between the authority body, decision-making body, supervisory body and the operation, to optimize the long-term effective system for the Company's development need. The decision-making rights of the shareholders' general meeting and the Board as well as the supervisory rights of the Board of Supervisors were effectively established to ensure the efficient implementation of operation management. The Company's corporate governance condition is in compliance with the requirements of relevant laws and regulations, and the interest of the Company and all the shareholders was solidly protected.

The general condition of the Company's corporate governance is as follows:

1. Shareholder and General Meeting: The Company convened and held general meetings in accordance with the requirements of the Articles of Association and the Rules of Procedure for General Meetings. During the Reporting Period, online voting was opened to shareholders to ensure that all shareholders, particularly minority shareholders, enjoy equal ranking and fully exercise their rights during the consideration of relevant resolutions in the general meetings. The convention and the resolution procedures in each of the general meetings were witnessed by lawyers in person and documents with legal opinions were delivered to ensure the resolutions were lawful and valid. During the Reporting Period, there was no occurrence of any insider trade of information among shareholders and people in possession of insider information, or any incident harming the interest of the shareholders or the Company.

CORPORATE GOVERNANCE REPORT

2. Relations between the Controlling Shareholders and the Company: The Company stringently carried out independence between its personnel, assets, finance, organization and business from those of the controlling shareholder, with separate accounting systems and respective responsibilities and risks. The controlling shareholders exercised rights and assumed responsibilities as contributors of the Company in strict compliance with relevant provisions under the Company Law and the Articles of Association of the Company. There was no business competition between the controlling shareholders and the Company, no direct or indirect interference in the decision-making and operation activities of the Company by the controlling shareholders, no non-operation use of capital, and no request of being a guarantee for or by the controlling shareholders.
3. Directors and the Board of Directors: All directors made independent, objective and fair decisions on the resolutions brought to the Board of Directors for consideration with their professional knowledge and ability. They also exercised rights and bore responsibilities in accordance with the laws, and were in strict compliance with the Articles of Association, Rules of Procedure for the Board of Directors and the requirements under relevant laws and regulations, in an honest and diligent manner. Independent directors could independently and objectively protect legal rights and interests of the Company and shareholders to provide checks and balances on the decision-making of the Board. When considering resolutions in relation to connected transactions, the connected shareholders abstained from voting in order to ensure that the connected transactions were fair and reasonable.
4. Supervisors and the Board of Supervisors: All supervisors were in strict compliance with the Articles of Association, Rules of Procedure for the Board of Supervisors and the requirements under relevant laws and regulations. The supervisors earnestly performed their duties for the best interests of all shareholders with the spirit of being responsible to the shareholders, supervised the legality of the Company's financial position, daily connected transactions and performance of directors and senior management. All Supervisors of the Company could attend the meetings of the Board of Supervisors and sit in the meetings of the Board on time in accordance with relevant requirements and report to the general meetings as well as submit work reports of the Board of Supervisors.
5. Senior management of the Company: The appointment and change of the senior management were in strict compliance with the Articles of Association. The procedures for appointment of senior management complied with the Company Law and the Articles of Association. The senior management of the Company conducted operations and performed their duties legally and diligently in accordance with the laws, regulations and authorizations of the Board, in order to maximize shareholder's benefits and social benefits.
6. Information Disclosure and Transparency: The Company strictly complied with the listing rules of the exchanges where its shares are listed, and fulfilled the responsibilities of disclosure in a truthful, precise, complete and timely manner. Meanwhile, the Company also ensured the confidentiality before the disclosure of information to make sure the disclosure of the Company's information was in an open, fair and just manner so that each shareholder would have an equal chance to obtain such information. The Company's transparency continued to increase.

CORPORATE GOVERNANCE REPORT

7. **Investor Relationship and Stakeholders:** The Company emphasized the maintenance of the investor relationship. The Company established hotlines for enquiries of investors, warmly received visits and on-site investigation by personal investors and institutional investors. Before the H Share issuance, the Company organized roadshow activities in Shanghai, Guangzhou, Beijing, Hong Kong and London for global investors. The Company's website was modified to provide simplified Chinese, traditional Chinese and English versions so that more investors can have deeper understanding of the Company's operation and development. The Company gave full respects to the shareholders, customers, staff and other stakeholders and protected their legitimate rights and interests from the perspective of system building and in each link of business operation, ensured the development of the Company in a sustainable, harmonious, healthy and standard way, in order to achieve all-win results for the Company and all stakeholders, thus maximizing the Company's profits and social benefits.
8. **Registration and Management of People in Possession of Inside Information:** During the Reporting Period, the Company implemented the System for the Registration and Management of People in Possession of Inside Information in strict compliance with the requirements of the regulators. According to the regulations of such system, the Company performed registration to record people associated with the inside information during the disclosure process of the Company's periodic reports. During the Reporting Period, no people possessing inside information traded the Company's shares in violation of the laws and regulations.

During the Reporting Period, according to the requirements of the regulatory departments, the Company further improved its organizational structure, institutional building and strengthened management of insider information, and ensured the actual status of the corporate governance of the Company complied with the requirements of the normative documents published by the CSRC regarding the corporate governance of listed companies. Since the date of listing of H Shares of the Company (December 5, 2016) up to the date of this report, the Company strictly complied with all the code provisions as set out in the Corporate Governance Code and Corporate Governance Report.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for securities transactions of the Company by all Directors, Supervisors and relevant employees. Having made all enquiries with Directors and Supervisors of the Company, it is confirmed that all Directors and Supervisors had strictly complied with the requirements under the Model Code during the Reporting Period.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH CG CODE

The Company has adopted the code provisions set out in Appendix 14 to the Hong Kong Listing Rules upon Listing. The Board is of the view that the Company has complied with all the code provisions as set out in the CG Code throughout the period from the Listing Date up to the end of the Reporting Period, except for the following deviations.

Code Provision A.2.7

According to provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the period from the Listing Date up to the end of the Reporting Period, the chairman of the Company had not held such meeting with non-executive Directors due to the relatively short period of time between Listing and the end of the Reporting Period.

SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND EMPLOYEES

The Company has adopted the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules upon Listing.

Specific enquiries have been made to all the Directors and the Supervisors and the Directors and the Supervisors have confirmed that they have complied with the Model Code throughout the period from the Listing Date up to the end of the Reporting Period.

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) ("Securities Dealing Code") on terms no less exacting than the required standard set out in the Model Code. The Company was not aware of any matters in relation to breaches of the Securities Dealing Code by any employee of the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS**Composition of the Board**

Up to the Latest Practicable Date, the Board consisted of eleven (11) members, including six (6) executive Directors, one (1) non-executive Director and four (4) independent non-executive Directors.

Executive Directors

Mr. Yang Guoping (楊國平) (*Chairman*)
Mr. Zhong Jinxing (鍾晉倅) (*Vice Chairman, Chief Financial Officer*)
Mr. Liang Jiawei (梁嘉璋) (*Chief Executive Officer*)
Ms. Yu Min (俞敏)
Mr. Yang Jicai (楊繼才)
Mr. Zhuang Jianhao (莊建浩)

Non-executive Director

Mr. Li Songhua (李松華)

Independent non-executive Directors

Mr. Cai Jianmin (蔡建民)
Mr. Chow Siu Lui (鄒小磊)
Mr. Yan Xuehai (顏學海)
Mr. Yao Cho Fai Andrew (姚祖輝)

The Company received a resignation letter from Mr. Yan Xuehai (顏學海) resigning as an independent non-executive Director and the member of the audit committee of the Company due to his health condition on February 20, 2017. According to the Guidelines for the Establishment of Independent Directors System by Listed Companies issued by the China Securities Regulatory Commission, Mr. Yan's resignation shall not take effect until the election of a new independent non-executive Director at the general meeting of the Company.

Biographical information of the Directors are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

To the best knowledge of the Company, there is no financial, business, family, or other material relationships among members of the Board.

Board Meetings

During the Report Period, the Board has convened ten (10) Board meetings. The following table sets forth the attendance rate of the Directors at the meetings of the Board and general meetings of the Company during the Reporting Period:

CORPORATE GOVERNANCE REPORT

II. Performance of Duties by Directors

(I) Attendance of Directors at Board meetings and general meetings

Name of Director	Independent Director or not	Required attendance for the year (times)	Attendance at Board meetings				Any failure in attending person for two consecutive meetings	Attendance at general meetings (times)
			Attendance in person	Attendance by way of communication	Attendance by proxy	Absence		
Yang Guoping (楊國平)	No	10	2	8	0	0	No	1
Zhong Jinxing (鍾晉倅)	No	10	2	8	0	0	No	1
Liang Jiawei (梁嘉璋)	No	10	2	8	0	0	No	1
Yu Min (俞敏)	No	10	2	8	0	0	No	1
Yang Jicai (楊繼才)	No	10	2	8	0	0	No	0
Zhuang Jianhao (莊建浩)	No	10	2	8	0	0	No	0
Li Songhua (李松華)	No	10	2	8	0	0	No	1
Cai Jianmin (蔡建民)	Yes	10	2	8	0	0	No	1
Yan Xuehai (顏學海)	Yes	10	2	8	0	0	No	0
Yao Cho Fai Andrew (姚祖輝)	Yes	10	2	8	0	0	No	0
Chow Siu Lui (鄒小磊)	Yes	7	1	6	0	0	No	1
Jiang Guofang (姜國芳)	Yes	3	0	3	3	0	No	0
Number of Board meetings held in the year								10
Including: Number of on-site meetings								2
Number of meetings held by way of communication								8
Number of meetings held on-site with attendance by way of communication								0

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

To ensure the balanced distribution of power and to enhance independence and accountability, the positions of chairman of the Board and chief executive officer of the Company are held by Mr. Yang Guoping (楊國平) and Mr. Liang Jiawei (梁嘉瑋), respectively.

The chairman provides leadership for the Board and is responsible for formulating corporate and business strategies and making significant corporations and operations decisions. The chief executive officer focuses on the business development and is responsible for the daily operation and managements and oversees the implementation of the Company's business strategies and plans.

Independent Non-Executive Directors

During the Reporting Period, the Board had complied with the requirements of the Hong Kong Listing Rules that (1) the Board of a listed issuer must include at least three independent non-executive directors; (2) at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise; and (3) the number of independent non-executive directors must represent at least one-third of the Board.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Re-election of Directors

The Company has entered into a service contract with each executive Director and a letter of appointment with each non-executive Director and independent non-executive Director. All Directors have been appointed for a term ending on the expiration of the term of the current session of the Board and shall be entitled to be re-election for a term of three years when the term of office expires. The appointment and removal of Directors shall be approved by Shareholders at the general meeting.

Responsibilities, Accountabilities and Contributions of the Board and the Management

The responsibilities of the Board and the management of the Company have been clearly defined in the Articles of Association.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors shall take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. All Directors have full and timely access to all the information of the Company as well as the services and advice from the joint company secretaries and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company. The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

CORPORATE GOVERNANCE REPORT

The management of the Company, under the leadership of the chief executive officer of the Company, is responsible for, among other things, implementing the resolutions of the Board and implementing the Company's business plans, investment proposals. The management of the Company shall report to the Board in a timely manner to enable the Board to make informed decisions in the overall interest of the Company.

Continuous Professional Development of Directors

All Directors have participated in continuous professional development program during the Reporting Period in order to keep abreast of their responsibilities, duties and obligations as directors of a dual-listed company.

Every newly appointed Director will receive formal, comprehensive and tailored made induction on the first occasion of his/her appointment to ensure his/her proper understanding of the Company's operations and business. Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. In addition, relevant reading materials including legal and regulatory updates will be provided to the Directors for their reference and studying.

Immediately prior to the Listing of the Company on the Hong Kong Stock Exchange, all Directors have been given the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interest.

According to the records maintained by the Company, as of December 31, 2016, all Directors received training in compliance with the code provisions relating to continuous professional development under the CG Code.

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company will also arrange regular seminars for Directors from time to time to provide up-to-date information on the latest developments and changes in the Hong Kong Listing Rules and other relevant legal and regulatory requirements. The Directors are also provided with periodic updates on the performance, status and prospects of the Company, in order to facilitate the Board as a whole and the Directors to perform their duties.

All the Directors have provided a record of training they received to the Company

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Hong Kong Stock Exchange's website and are available to shareholders upon request.

Audit Committee

During the Reporting Period and up to the Latest Practicable Date, the Audit Committee of the Company comprised the following Directors:

Independent non-executive Directors

Mr. Cai Jianmin (蔡建民) (*Chairman*)

Mr. Yao Cho Fai Andrew (姚祖輝)

Mr. Yan Xuehai (顏學海)

The Audit Committee is responsible for, among other things:

- ensuring the implementation of effective financial control, internal control and risk management systems of the Company in compliance with the Hong Kong Listing Rules;
- supervising the drafting and implementation of the internal audit system of the Company, coordinating between the internal and external audit;
- overseeing the completeness of financial statement and annual reports and accounts, interim reports and quarterly reports of the Company;
- approving the connected transactions or the filing of the connected transactions within authorization from the Board;
- reviewing the financial and internal monitoring system as well as the risk management system;
- reviewing the financial and accounting policies and practices of the Company;
- maintaining the communication between the internal audit department and the external audit firm; and
- other duties authorized by the Board.

During the Reporting Period, the Audit Committee held three (3) meetings to review interim and quarterly financial results and reports and significant issues on the financial reporting and connected transactions.

CORPORATE GOVERNANCE REPORT

The attendance records of members of the Audit Committee are set out below:

Name of Director	Number of meetings	Attendance in person	Attendance by proxy	Absence
Mr. Cai Jianmin (蔡建民) (Chairman)	3	3	0	0
Mr. Yan Xuehai (顏學海)	3	3	0	0
Mr. Yao Cho Fai Andrew (姚祖輝)	3	3	0	0

Remuneration and Appraisal Committee

During the Reporting Period and up to the Latest Practicable Date, the Remuneration and Appraisal Committee of the Company comprised the following Directors:

Independent non-executive Director

Mr. Yao Cho Fai Andrew (姚祖輝) (Chairman)

Mr. Cai Jianmin (蔡建民)

Executive Directors

Mr. Yang Guoping (楊國平)

The Remuneration and Appraisal Committee is responsible for, among other things:

- determining the assessment standards for the Directors, managers and other senior management and advising on the establishment of the proper and transparent procedures to formulate the remuneration policy;
- reviewing and examining the remuneration policies and plans of the Directors, managers and other senior management;
- overseeing the implementation of remuneration system of the Company;
- taking into account of the salaries paid by comparable companies, time commitment and responsibilities, employment conditions of other positions in the Group;
- reviewing and approving the compensation arrangement in connection with the termination of appointment of Directors and senior management; and
- other duties authorized by the Board.

The Remuneration and Appraisal Committee shall make recommendations to the Board on the remuneration packages of Directors and senior management for the Board's approval and the Board shall have power to veto remuneration plans or proposals which are contrary to the interests of shareholders.

During the Reporting Period, the Remuneration Committee held one (1) meeting to review, determine and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters.

CORPORATE GOVERNANCE REPORT

The attendance records of members of the Remuneration and Appraisal Committee are set out below:

Name of Director	Number of meetings	Attendance in person	Attendance by proxy	Absence
Mr. Yao Cho Fai Andrew (姚祖輝) (Chairman)	1	1	0	0
Mr. Cai Jianmin (蔡建民)	1	1	0	0
Mr. Yang Guoping (楊國平)	1	1	0	0

Details of remuneration of all Directors, Supervisors and certain members of the senior management for the year ended December 31, 2016 are set out in note 15 to the financial statements in this annual report.

Nomination Committee

During the Reporting Period and up to the Latest Practicable Date, the Nomination Committee of the Company comprised the following Directors:

Independent non-executive Directors

Mr. Yao Cho Fai Andrew (姚祖輝) (Chairman)
Mr. Cai Jianmin (蔡建民)

Executive Director

Mr. Yang Guoping (楊國平)

The Nomination Committee is responsible for, among other things:

- determining the selection standard and procedures to appoint Directors, managers and other senior management;
- identifying suitable candidates of Directors, managers and other senior management and making recommendation to the Board;
- evaluating the independence of the independent Directors;
- evaluating the composition, number of Directors and formation of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- assessing the candidates of Directors, managers and other senior management and making recommendation; and
- other duties authorized by the Board.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy adopted by the Company, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

CORPORATE GOVERNANCE REPORT

The following tables summarize the Board's diversity in terms of gender, age and length of service:

Gender	Number of Directors
Male	10
Female	1

Age	Number of Directors
Below 50	2
Between 50 and 59	6
Between 60 and 69	2
70 and above	1

Length of service as Director	Number of Directors
Less than 3 years	6
Between 3 to 5 years	0
5 years and more	5

During the Reporting Period, the Nomination Committee held one (1) meeting times to review the structure, size and composition of the Board and the independence of the independent non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The attendance records of members of the Nomination Committee are set out below:

Name of Director	Number of meetings	Attendance in person	Attendance by proxy	Absence
Mr. Yao Cho Fai Andrew (姚祖輝) (Chairman)	1	1	0	0
Mr. Cai Jianmin (蔡建民)	1	1	0	0
Mr. Yang Guoping (楊國平)	1	1	0	0

CORPORATE GOVERNANCE REPORT

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

INFORMATION ON THE GENERAL MEETINGS**III. General Meeting**

General meeting	Date of convention	Directory to designated site of publication of the resolution	Date of disclosure of the publication of resolution
2015 annual general meeting	April 15, 2016	The Shanghai Stock Exchange http://www.sse.com.cn	April 16, 2016

Information on the general meeting

A total of 33 shareholders and proxies attended the 2015 annual general meeting, with a total of 710,733,587 shares, accounting for 28.81% of the total number of shares of the Company. The meeting considered and approved resolutions including the Work Report of the Board of Directors for the Year 2015, the Work Report of the Board of Supervisors for the Year 2015, the Work Report of the General Manager for the Year 2015, the Financial Settlement Report for the Year 2015 and the Financial Budget Report for the Year 2016, the Profit Distribution Plan for the Year 2015, Resolution on Day-to-day Related Party Transactions of the Company for the Year 2016, Resolutions on the Application of Credit Facilities of the Company and the Provision of Guarantees for External Financing of Controlling Subsidiary by the Company, Resolution on the Re-appointment of auditing firm, Resolution on the Engagement of Internal Control Audit Firm for the Company for the Year 2016, Resolution on Write-off of Other Receivables, Interim Resolution on the Proposed Registration and Issuance of Ultra-short-term financial bonds, Interim Resolution on the Proposed Registration and Issuance of Short-term financial bonds, Interim Resolution on the Proposed Registration and Issuance of Medium-term financial bonds, Election of Mr. Chou Siu Lui as an Independent Director of the Ninth session of the Board of the Company, and listened to the Work Report of Independent Directors for the Year 2015. The general meeting was witnessed by lawyers of Jin Mao Partners in person and documents with legal opinions were delivered. The legal opinions were that the meeting was lawful and valid.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS

Shareholder's Requests to Convene an Extraordinary General Meeting

Pursuant to Article 76 of the Articles of Association, Shareholders requesting to convene an extraordinary general meeting or class meeting shall follow the following procedures:

- (i) two or more shareholders who collectively hold 10% or more of the voting shares at the proposed meeting may make a proposal to the Board of Directors on holding an extraordinary general meeting or class meeting by signing one or several written requests with same content in same format and define the meeting agenda. The Board of Directors shall convene such meeting as soon as possible upon receipt of the aforesaid written request. The aforesaid number of shares held shall be calculated as of the date when the written request was put forward by the shareholders.
- (ii) in case that the Board of Directors fails to give a notice of convening such meeting within 30 days after receipt of the aforesaid written request, the shareholders who put forward the request may convene such a meeting within 4 months after receipt of the request by the Board of Directors, and the procedures shall be the same as those for convening a general meeting by the Board of Directors where possible.

The expenses reasonably incurred by shareholders in convening and holding such a meeting for the Board of Directors fails to hold such a meeting on the aforesaid request shall be borne by the Company and shall be deducted from any payment due by the Company to non-performing directors.

Proposals at the General Meetings

Pursuant to Article 79 of the Articles of Association, When the Company convenes a general meeting, the Board of Directors, the Supervisory Committee and Shareholder(s) individually or jointly holding more than 5% of the Company's shares shall have the right to propose resolutions to the Company.

However, for proposals related to division, merger, dissolution, liquidation of the Company, replacement of members of the Board of Directors and the Supervisory Committee, and amendments to the Articles of Association, only shareholders individually holding more than 20% of the Company's shares for 3 consecutive years shall have the right to propose resolutions to the Company.

Shareholder(s) individually or jointly holding more than 5% of the Company's shares may propose interim resolutions in writing to the convener(s) 10 working days before the general meeting is convened.

The convener(s) shall issue a supplementary notice of the general meeting within 2 days after receiving the resolutions to announce the contents of the special resolutions.

Except as provided in the preceding paragraph, after sending out a notice of general meeting, the convener(s) shall not make any amendments to the proposals included in the notice of general meeting or add any new proposals.

CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company shall examine the proposals of the general meeting in accordance with the Articles of Association in the best interests of the Company and the shareholders. Proposals not set out in the notice of general meeting or not complying with the Articles of Association shall not be submitted to the general meeting for voting and resolution by the Board of Directors of the Company.

Putting Forward Enquiries to the Board

Shareholders may put forward enquiries to the Company in writing, and may send their enquiries or requests as mentioned above to the Company by means of facsimile, email or post. The details of contact are as follows:

Secretary to the Board's office of the Company

Address: 8/F, Dazhong Building, 1515 Zhongshan West Road, Shanghai, PRC
Facsimile: +86(21) 64288727
Email: master@dzug.cn

For the avoidance of doubt, shareholder(s) must provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board recognizes that it is accountable to its stakeholders and considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies.

To promote effective communication, the Company has established a shareholder communication policy and maintains a website at www.dzug.cn, where information and updates on the Company's business developments and operation, financial information, corporate governance practices and other information are available for public access.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended December 31, 2016.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 104 to 108 of this annual report.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company (including BDO and other PRC auditors), in respect of audit services for the annual report for the year ended December 31, 2016 amounted to HKD1.2 million and RMB1.6 million, of which HKD1.2 million is for audit services rendered by BDO.

In addition, BDO was appointed as the Company's reporting accountant in relation to its initial public offering of its H Shares on the Hong Kong Stock Exchange, in relation to which total fees paid or payable to BDO was RMB11.7 million.

There is no remuneration paid to external auditors in respect of non-audit services.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has built a corporate infrastructure which includes detailed internal control and risk management policies that govern all major aspects of its operations in each department, including operational procedures, responsibility allocation, resource management, reporting hierarchy and internal assessment criteria. The internal control and risk management policies are subject to review and amended to reflect changes in market conditions, applicable rules and regulations and risk profiles of the Company's various business segments.

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems.

The Company has established an internal audit department which is responsible for internal audit function and independent review on the adequacy and effectiveness of risk management and internal control system. The internal audit department examines major matters relating to accounting practices and material controls and provide the audit committee with its findings and suggestions for improvement.

The Board, through the Audit Committee, has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries for the year ended December 31, 2016 and considered the risk management and internal control system to be effective and adequate.

CORPORATE GOVERNANCE REPORT

JOINT COMPANIES SECRETARIES

Ms. Zhao Fei (趙飛), the secretary to the Board and one of the Company's joint company secretaries, is responsible for advising on the Board on corporate governance and compliance matters and in charge of the preparation and documentation for general meetings and Board meetings of the Company.

In order to uphold good corporate governance and to ensure compliance with the Hong Kong Listing Rules, the Company has appointed Mr. Wong Yat Tung (黃日東), a manager of a specialty corporate services provider and an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators, as a joint company secretary to assist Ms. Zhao Fei (趙飛), in discharging her duties and responsibilities as company secretary of the Company. The key contact person between Mr. Wong Yat Tung and the Company is Ms. Zhao Fei. Ms. Zhao Fei is aware of the requirements of Rule 3.29 of the Hong Kong Listing Rules. Considering that the H shares of the Company were listed on the Hong Kong Stock Exchange on December 5, 2016, Ms. Zhao Fei will comply with the requirements of Rule 3.29 of the Hong Kong Listing Rules for the year ending December 31, 2017. Mr. Wong Yat Tung took part in relevant professional trainings for no less than 15 hours during the Reporting Period.

ARTICLES OF ASSOCIATION

No changes were made to the Articles of Association during the Reporting Period.

IV. Risk Discovered by the Board of Supervisors

The Board has no objection to the supervision during the reporting period.

V. The Company's Independence from Its Controlling Shareholder in terms of Business, Personnel, Assets, Organization and Finance and Ability to Maintain Independent Operation

The Company's corresponding measures, work progress and subsequent work plan when competing with counterparts in the industry

CORPORATE GOVERNANCE REPORT

VI. The Establishment and Implementation of the Assessment Mechanism and Incentive Mechanism for Senior Management during the Reporting Period

During the Reporting Period, the Company has established a performance evaluation system for senior management. The Remuneration and Appraisal Committee under the Board was responsible for the formulation of remuneration policy and determination of remuneration plan. The Remuneration and Appraisal Committee followed the Company's annual operation targets to assess the operating results and management indicators of senior management of the Company and determined the annual remuneration of senior management of the Company, which was implemented after confirmation of the Board. The Company will follow the market orientation and gradually improved the existing performance evaluation system and the remuneration system to form a more effective system of allocation incentives and restrictions, thereby to encourage senior management to perform their duties diligently and conscientiously and to protect the interests of shareholders and the Company.

VII. Whether to disclose internal self evaluation report

Please refer to the SSE's website (www.sse.com.cn) dated March 31, 2017 for the detailed Internal Control Evaluation Report of the Company for 2016.

VIII. Relevant information on internal control audit report

BDO China Shu Lun Pan Certified Public Accountants LLP, the internal control auditor of the Company issued a standard unqualified internal control audit report for the Company. Please refer to relevant announcement on the SSE's website (www.sse.com.cn) dated March 31, 2017 for details of the internal control audit report.

INDEPENDENT AUDITOR'S REPORT



BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 2239

TO THE SHAREHOLDERS OF SHANGHAI DAZHONG PUBLIC UTILITIES (GROUP) CO., LTD.

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

OPINION

We have audited the consolidated financial statements of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as "the Group") set out on pages 109 to 215, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, of the consolidated financial position of the Group as at December 31, 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Consolidation of entities in which the Group holds 50% voting rights

Refer to note 5(a) to the consolidated financial statements and the accounting policies on note 4(b).

As at December 31, 2016, the Company held a 50% equity interests in three subsidiaries, namely Shanghai Dazhong Gas Group Co., Ltd. ("Shanghai Dazhong Gas"), Nantong Dazhong Gas Co., Ltd. ("Nantong Dazhong Gas") and Shanghai Minhang Dazhong Micro-Credit Co., Ltd. ("Minhang Dazhong Micro-Credit") (together as "50% Subsidiaries"). The directors of the Company considered that the Company has the practical ability to direct the relevant activities of 50% Subsidiaries, which demonstrates the Group has power over 50% Subsidiaries, exposure to variable returns from 50% Subsidiaries and ability to use its power to affect its variable returns throughout the year based on all relevant facts and circumstances and therefore the Company is able to consolidate these entities in the consolidated financial statements. The determination that the Company has control over 50% Subsidiaries is a key audit matter due to the significant judgment involved and the potential financial impact is significant to the presentation of consolidated financial statements.

Our response:

Our audit procedures in relation to assessment of appropriateness of consolidation of 50% Subsidiaries included:

- obtained and reviewed those relevant terms in the shareholders' agreements and articles of association of 50% Subsidiaries;
- obtained and reviewed minutes of the board meeting of 50% Subsidiaries;
- discussed with management of the Company concerning the basis for consolidation of the financial statements of 50% Subsidiaries; and
- attended an interview with the directors of 50% Subsidiaries, and enquired relevant facts and circumstances concerning the control of 50% Subsidiaries.

Significant influence over investees

Refer to note 5(a) to the consolidated financial statements and the accounting policies on note 4(c).

As at December 31, 2016, the Company had investments in three entities, namely Shenzhen Capital Group Co., Ltd. ("Shenzhen Capital Group"), Shanghai Hangxin Investment Management Co., Ltd. ("Shanghai Hangxin") and Suchuang Gas Co., Ltd. ("Suchuang Gas"), in which the Group held 13.93%, 16.13% and 19.76% of their equity interests respectively. The directors of the Company considered that the Group has significant influence over these three investments since the Group actively participates in these three entities' operating and financial policies, and thus investments in these three entities are accounted for as associates of the Group using the equity method. The determination that the Company has significant influence over these three entities is a key audit matter due to the significant judgment involved and the potential financial impact is significant to the presentation of consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Our response:

Our audit procedures in relation to assessment of the existence of significant influence over investees included:

- obtained and reviewed those relevant terms in the shareholders' agreements and articles of association of these three entities;
- obtained and reviewed minutes of the board meeting of these three entities;
- discussed with management of the Company concerning the basis of these three entities accounted for as associates in the consolidated financial statements; and
- attended an interview with the directors of these three entities, and enquired relevant facts and circumstances concerning the significant influence over these three entities.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS issued by IASB 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are also responsible for overseeing the Group's financial reporting process. The audit committee of the Company assists those charged with governance in discharging their responsibility in this regard.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Lee Ka Leung, Daniel

Practising Certificate Number P01220

Hong Kong, 30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	7	4,568,396	4,616,595
Cost of sales		(3,828,280)	(3,886,987)
Gross profit		740,116	729,608
Other income and gains	8	57,110	45,820
Selling and distribution costs		(167,749)	(143,172)
Administrative expenses		(376,951)	(354,263)
Investment income and gains, net	11	111,126	72,081
Loss on disposal of subsidiaries	9	(4,529)	–
Gain on partial disposal of equity interests in an associate		–	216,386
Compensation loss in connection with disposal of a subsidiary in prior year		–	(80,000)
Finance costs	12	(180,226)	(176,629)
Share of results of associates	26	501,613	263,326
Profit before income tax expense	14	680,510	573,157
Income tax expense	17	(46,700)	(37,432)
Profit for the year		633,810	535,725
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		(273,009)	952,240
Change in fair value of available-for-sale financial assets		(62,941)	43,618
Recycle of change in fair value of available-for-sale financial assets to profit or loss		(1,163)	–
Exchange differences on translating foreign operations		(728)	6,816
Items that will not be reclassified to profit or loss:			
Re-measurement gains/(losses) on defined benefit obligations		558	(4,802)
Other comprehensive income for the year, net of tax		(337,283)	997,872
Total comprehensive income for the year		296,527	1,533,597

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
Profit for the year attributable to:			
Owners of the Company		547,642	463,800
Non-controlling interests		86,168	71,925
		633,810	535,725
Total comprehensive income for the year attributable to:			
Owners of the Company		195,672	1,464,073
Non-controlling interests		100,855	69,524
		296,527	1,533,597
Earnings per share			
Basic and diluted	19	RMB0.22	RMB0.19

2016

DaZhong Public Utilities

大众公用

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	20	4,590,460	4,390,369
Investment properties	21	64,948	67,147
Payments for leasehold land held for own use under operating leases	22	69,421	80,835
Goodwill	23	1,312	–
Intangible assets	24	361,496	183,542
Investments in associates	26	4,684,486	4,082,210
Available-for-sale financial assets	27	791,989	833,729
Trade receivables	28	463,337	544,600
Lease receivables	29	615,247	340,144
Amount due from grantor	30	618,369	653,216
Long-term prepayment		–	3,000
Deferred tax assets	31	20,495	19,618
Total non-current assets		12,281,560	11,198,410
Current assets			
Inventories	32	27,909	22,343
Amount due from an associate	26	–	60,335
Trade and bills receivables	28	335,940	329,474
Lease receivables	29	375,685	412,785
Loan receivables	33	224,885	200,811
Prepayments and other receivables	34	77,227	178,933
Amount due from grantor	30	34,847	33,090
Financial assets at fair value through profit or loss	35	74,103	106,333
Available-for-sale financial assets	27	160,000	85,000
Pledged deposits	36	159,000	3,397
Cash and cash equivalents	36	3,258,733	1,549,655
Total current assets		4,728,329	2,982,156
Current liabilities			
Borrowings	37	1,944,671	1,497,709
Short-term bonds payable	38	302,417	–
Trade payables	39	1,289,529	1,111,455
Other payables	40	997,366	734,666
Deferred income	41	210,633	203,076
Amounts due to customers for contract work	42	517,811	436,613
Employee defined benefits	43	2,130	2,198
Current tax liabilities		27,685	22,522
Total current liabilities		5,292,242	4,008,239
Net current liabilities		(563,913)	(1,026,083)
Total assets less current liabilities		11,717,647	10,172,327

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Borrowings	37	378,155	438,710
Corporate bonds payable	38	1,595,052	1,590,465
Other payables	40	275,573	105,995
Deferred income	41	1,116,838	1,078,406
Employee defined benefits	43	39,087	39,819
Provision for restoration	44	19,295	19,486
Deferred tax liabilities	31	99,225	120,260
Total non-current liabilities		3,523,225	3,393,141
Net assets		8,194,422	6,779,186
Equity			
Share capital	45	2,902,705	2,467,305
Reserves		4,160,340	3,250,759
Non-controlling interests		7,063,045	5,718,064
		1,131,377	1,061,122
Total equity		8,194,422	6,779,186

On behalf of the directors

2016

DaZhong Public Utilities

大众公用

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

	Equity attributable to owners of the Company									
	Share capital	Capital reserve	Statutory reserve	Exchange reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total
	(note 45)	(note 46(a))	(note 46(b))	(note 46(c))	(note 46(d))	(note 46(e))	(note 46(f))			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	1,644,870	207,303	617,342	(874)	249,775	501,275	1,129,785	4,349,476	957,992	5,307,468
Profit for the year	-	-	-	-	-	-	463,800	463,800	71,925	535,725
Other comprehensive income for the year:										
Share of other comprehensive income of associates	-	-	-	-	-	952,240	-	952,240	-	952,240
Change in fair value of available-for-sale financial assets	-	-	-	-	43,618	-	-	43,618	-	43,618
Exchange differences on translating foreign operations	-	-	-	6,816	-	-	-	6,816	-	6,816
Re-measurement loss on defined benefit obligations (note 43)	-	-	-	-	-	(2,401)	-	(2,401)	(2,401)	(4,802)
Total comprehensive income for the year	-	-	-	6,816	43,618	949,839	463,800	1,464,073	69,524	1,533,597
Issue of bonus shares (note 45(i))	822,435	-	-	-	-	-	(822,435)	-	-	-
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	87,500	87,500
Change in equity interest in a subsidiary	-	(42,324)	-	-	-	-	-	(42,324)	(35,541)	(77,865)
2014 final dividend paid	-	-	-	-	-	-	(57,422)	(57,422)	-	(57,422)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(18,353)	(18,353)
Transfer of statutory reserve	-	-	-	-	-	133	(133)	-	-	-
Appropriation to statutory reserve	-	-	52,536	-	-	-	(52,536)	-	-	-
Others	-	4,261	-	-	-	-	-	4,261	-	4,261
At December 31, 2015 and January 1, 2016	2,467,305	169,240	669,878	5,942	293,393	1,451,247	661,059	5,718,064	1,061,122	6,779,186
Profit for the year	-	-	-	-	-	-	547,642	547,642	86,168	633,810
Other comprehensive income for the year:										
Share of other comprehensive income of associates	-	-	-	-	-	(273,009)	-	(273,009)	-	(273,009)
Change in fair value of available-for-sale financial assets	-	-	-	-	(77,349)	-	-	(77,349)	14,408	(62,941)
Recycle of change in fair value of available-for-sale financial assets to profit or loss	-	-	-	-	(1,163)	-	-	(1,163)	-	(1,163)
Exchange differences on translating foreign operations	-	-	-	(728)	-	-	-	(728)	-	(728)
Re-measurement gain on defined benefit obligations (note 43)	-	-	-	-	-	279	-	279	279	558
Total comprehensive income for the year	-	-	-	(728)	(78,512)	(272,730)	547,642	195,672	100,855	296,527
Issue of ordinary H shares (note 45 (ii))	435,400	882,191	-	-	-	-	-	1,317,591	-	1,317,591
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	9,544	9,544
2015 final dividend paid (note 18)	-	-	-	-	-	-	(148,038)	(148,038)	-	(148,038)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(29,118)	(29,118)
Transfer of statutory reserve	-	-	63,495	-	-	-	(63,495)	-	-	-
Acquisition of equity interests of non-controlling interests (note 25)	-	(19,504)	-	-	-	-	-	(19,504)	(11,026)	(30,530)
Others	-	(740)	-	-	-	-	-	(740)	-	(740)
At December 31, 2016	2,902,705	1,031,187	733,373	5,214	214,881	1,178,517	997,168	7,063,045	1,131,377	8,194,422

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

	2016 RMB'000	2015 RMB'000
Profit before income tax expense	680,510	573,157
Adjustments for:		
Finance costs	180,226	176,629
Share of results of associates	(501,613)	(263,326)
Amortisation on payments for leasehold land held for own use under operating leases	2,084	2,250
Amortisation on intangible assets	22,834	10,203
Depreciation on property, plant and equipment	328,898	312,261
Depreciation on investment properties	2,199	2,199
Impairment loss on property, plant and equipment	–	51,712
Impairment loss on trade receivables	603	1,351
Impairment loss on loan receivables	526	4,817
(Reversal of impairment loss)/impairment loss on prepayments and other receivables	(484)	1,921
Loss on disposal of property, plant and equipment	13,358	9,067
Loss on disposal of subsidiaries	4,529	–
Gain on partial disposal of equity interests in an associate	–	(216,386)
Compensation loss in connection with disposal of subsidiary in prior year	–	80,000
Loss/(gain) on disposal of financial assets at fair value through profit or loss — held for trading	124,835	(1,587)
Loss/(gain) on disposal of available-for-sale financial assets	(13,643)	(37,164)
Gain on disposal of government bonds	(2,450)	(3,505)
Changes in fair value of financial assets at fair value through profit or loss	1,621	21,784
Dividend income	(213,610)	(44,353)
Other financial income	(7,879)	(7,256)
Exchange gain, net	(11,910)	(4,407)
Financial income from wastewater treatment income	(32,793)	(36,005)
Financial income from public infrastructure projects	(40,716)	(45,295)
Bank interest income	(14,620)	(17,319)
Other interest income	(4,119)	(4,554)
Others	–	1,517
Operating profit before working capital changes	518,386	567,711
(Increase)/decrease in inventories	(5,227)	8,584
Decrease/(increase) in trade and bills receivables	71,885	(40,040)
Decrease/(increase) in prepayments and other receivables	117,908	(21,667)
Increase/(decrease) in trade and bills payables	180,750	(179,920)
(Decrease)/increase in other payables	(392,319)	72,254
Increase in deferred income	45,989	7,852
Increase/(decrease) in amounts due to customers for contract work	81,198	(32,560)
Cash generated from operations	618,570	382,214
Bank interest income	14,620	17,319
Other interest income	4,119	4,554
Income taxes paid	(42,601)	(48,920)
Net cash flows generated from operating activities	594,708	355,167

2016

DaZhong Public Utilities

大众公用

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

	2016 RMB'000	2015 RMB'000
Cash flows from investing activities		
Proceeds from disposals of investments and financial assets	719,784	919,799
New rental receivables	(933,846)	(1,287,592)
Receipt of rental receivables	695,843	632,463
New loan receivables	(197,300)	(238,200)
Receipt of loan receivables	172,700	216,451
(Increase)/decrease in pledged deposits	(155,603)	31,905
Proceeds from return on investment and financial assets	175,000	263,198
Proceeds from disposals of property, plant and equipment, intangible assets and long-term investments	11,269	604
Proceeds from disposals of subsidiaries, net of cash and cash equivalents disposed of	6,976	-
Proceeds from repayment of amount due from grantor	33,090	166,581
Payment for wastewater treatment tender	(31,353)	(100,800)
Payment for compensation in connection with disposal of a subsidiary in prior year	-	(80,000)
Acquisition of property, plant and equipment and payments for leasehold land held for own use under operating leases	(514,098)	(558,637)
Receipt of repayment from amount due from as associate	60,335	-
Acquisition of intangible assets	-	(11,777)
Acquisition of a subsidiary, net of cash acquired	42,178	-
Payments for acquisition of new investments	(704,802)	(856,152)
Net cash flows used in investing activities	(619,827)	(902,157)
Cash flows from financing activities		
New bank borrowings	3,623,441	3,475,090
Repayment of bank borrowings	(3,226,900)	(2,672,425)
Proceeds from issue of short-term bonds payable	300,000	-
Proceeds from issue of ordinary shares	1,391,871	-
Payments of interest expenses	(96,678)	(174,366)
Payments of final dividends	(148,038)	(57,422)
Dividends paid to non-controlling interests	(29,118)	(18,353)
Capital injection from non-controlling interests	9,544	87,500
Acquisition of equity interests of non-controlling interests	(30,530)	(77,865)
Payments for other financing activities, including shares issue cost	(77,480)	-
Net cash flows generated from financing activities	1,716,112	562,159
Net increase in cash and cash equivalents	1,690,993	15,169
Exchange differences on translating cash flows of foreign operations	18,085	4,407
Cash and cash equivalents at beginning of year	1,549,655	1,530,079
Cash and cash equivalents at end of year	3,258,733	1,549,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

1. GENERAL INFORMATION

Shanghai Dazhong Public Utilities (Group) Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") on January 1, 1992, as a joint stock limited company. On March 4, 1993, the Company was listed on the Shanghai Stock Exchange. Its registered office and the principal place of business activities is located at No. 518, Shang Cheng Road, Pudong New District, Shanghai, the PRC and 1515 Zhongshan Road West, Shanghai, the PRC respectively.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") on December 5, 2016.

The Company is principally engaged in investment holding during the year. The principal business activities of the Group during the year included piped gas supply, wastewater treatment, public infrastructure projects and financial services.

In the opinion of the directors, the immediate holding company is Shanghai Dazhong Business Management Co., Limited (上海大眾企業管理有限公司), a company incorporated in the PRC, and the ultimate controlling shareholder of the Company is Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會).

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new/revised IFRSs — effective January 1, 2016

IFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
IFRS 14	Regulatory Deferral Accounts

Amendments to IAS 1 — Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of IAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

(Continued)

(a) Adoption of new/revised IFRSs — effective January 1, 2016 (Continued)

Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

(b) New/revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group’s consolidated financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to IAS 7	Disclosure Initiative ¹
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions ²
IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ²
IFRS 16	Leases ³
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
IFRSs (Amendments)	Annual Improvements 2014–2016 Cycle ⁵

¹ Effective for annual periods beginning on or after January 1, 2017

² Effective for annual periods beginning on or after January 1, 2018

³ Effective for annual periods beginning on or after January 1, 2019

⁴ The amendments were originally intended to be effective for periods beginning on or after January 1, 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

⁵ Effective for annual periods beginning on or after January 1, 2017 and 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

(Continued)

(b) New/revised IFRSs that have been issued but are not yet effective *(Continued)*

Except as described below, the directors do not anticipate that the application of the new and revised IFRSs will have material impact on the Group’s financial performance and position and/or on the disclosures to the Group’s consolidated financial statements.

IFRS 9 — Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

IFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in IAS 39 “Financial Instruments: Recognition and Measurements” and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

The directors anticipate that the application of IFRS 9 in the future will have an impact on amounts reported in respect of the Group’s financial performance and financial assets (e.g. impairment on trade receivables and loan receivables) resulting from early provision of credit losses using the expected loss impairment model under IFRS 9 instead of incurred loss model under IAS 39. Currently, the directors are in the midst of assessing the financial impact of the application of IFRS 9 and a reasonable estimate of the effect will be available once the detailed review is completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

(Continued)

(b) New/revised IFRSs that have been issued but are not yet effective (Continued)

IFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations
- Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The directors anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported on revenue as the timing of revenue recognition may be affected by the new standard, and more disclosures relating to revenue is required. Currently, the directors are in the midst of assessing the financial impact of the application of IFRS 15 and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirement of IAS 16 “Property, Plant and Equipment”, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

(Continued)

(b) New/revised IFRSs that have been issued but are not yet effective *(Continued)*

IFRS 16 Leases (Continued)

Total operating lease commitments of the Group in respect of land and buildings and office premises as at December 31, 2016 amounted to approximately RMB9,573,000 (2015: RMB14,374,000). The directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable IFRSs issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on SEHK.

(b) Basis of preparation and going concern assumption

The consolidated financial statements have been prepared under the historical cost basis except for available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair values as explained in the accounting policies set out below.

The Group had net current liabilities of approximately RMB563,913,000 as at December 31, 2016. The Group meets its day-to-day work capital requirements through its bank borrowings. Its forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current banking facilities. The directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future, and therefore are of the view that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements. Further information on the Group’s bank borrowings is set out in note 37.

(c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. Each entity within the Group maintains its books and records in its own functional currency. The functional currency of the Company is RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (1) power over the investee, (2) exposure, or rights, to variable returns from the investee, and (3) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and other parties who hold voting rights;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Associates

An associate is an entity over which the Group/the Company has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group/the Company and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

Any premium paid for an associate above the fair value of the Group's/the Company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment at the end of that financial year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	8–40 years
Leasehold improvements	5–9 years
Motor vehicles	3–10 years
Gas pipeline and machinery	4–25 years
Equipment, furniture and fixtures	1–20 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis so owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is charged so as to write off the cost of investment property net of expected residual value over the estimated useful live using straight-line method. The useful live, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

(g) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

(i) Intangible assets

Intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows:

Wastewater treatment concession rights	20–30 years
Computer software and application systems	5 years
Technical knowhow	10 years

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment of non-financial assets below).

(j) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) **Financial instruments** *(Continued)*

(i) **Financial assets** *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held of trading if they are acquired for the purpose of sale in the near future.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

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 arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) **Financial instruments** *(Continued)*

(ii) **Impairment loss on financial assets** *(Continued)*

For available-for-sale financial assets

A significant or prolonged decline in the fair value of the investment in an equity instrument below their cost is considered to be objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) **Financial liabilities**

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred.

The Group's financial liabilities at amortised costs including trade and other payables, borrowings, other monetary liabilities and corporate bonds issued by the Group are subsequently measured at amortised costs, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) **Financial instruments** *(Continued)*

(v) **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debt fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

(vii) **Derecognition**

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(k) **Construction contracts**

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

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as "amounts due to customers for contract work".

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weight average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(m) Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC or their designees (the "Grantors"). The service concession arrangements consist of Build-Operate-Transfer ("BOT") arrangements and Transfer-Operate-Transfer ("TOT") arrangements. Under the BOT arrangements, the Group carries out construction work of the wastewater for the Grantors and receives in return a right to operate the service project concerned for a specified period of time (the "concession period") in accordance with the pre-established conditions set by the Grantors, and the service project shall be transferred to the Grantors at nil or minimal consideration at the end of the concession period. A TOT arrangement is similar to a BOT arrangement, except that the Group pays consideration for the right to operate the sewage and reclaims water treatment or water distribution service that has been built.

Under IFRIC 12 "Service Concession Arrangements", service concession arrangements are accounted for as follows if:

- (i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group's rights over the infrastructure

Infrastructure constructed by the Group under service concession arrangements is not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the infrastructure to the Group. The Group as the operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Service concession arrangements *(Continued)*

Consideration received or receivable by the Group for the construction services

Consideration received or receivable by the Group for the construction services rendered under service concession arrangement is recognised at its fair value as a financial asset or an intangible asset.

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for "Financial instruments" in note 4(j).

An intangible asset (concession intangible asset) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession intangible asset) is accounted for in accordance with the policy set out for "Intangible assets" in note 4(i).

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components are recognised initially at fair value of the consideration received or receivable.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for "Construction contracts" in note 4(k).

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in note 4(n).

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licence, that is (a) to maintain the wastewater treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the wastewater treatment plants are recognised and measured in accordance with the policy set out for "Provisions and contingent liabilities" in note 4(v).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

- (i) Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.
- (ii) Revenue from sale of gas is recognised upon the transmission of gas to the customers, as determined based on the volume of gas transmitted and the applicable fixed tariff rates agreed with the respective customers.
- (iii) Revenue from construction contracts of gas pipeline construction is recognised by reference to the percentage of completion of the contract at the reporting date (note 4(k)).
- (iv) When the Group receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the Group must then use the item of property, plant and equipment to provide the customer with ongoing access to a supply of gas, the item of property, plant and equipment is recognised in accordance with IAS 16 "Property, Plant and Equipment" and the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) is recognised in accordance with IAS 18 "Revenue". When an ongoing service is identified as part of the arrangement, the revenue is recognised as gas connection income over ten years.
- (v) Revenue from wastewater treatment is recognised when services are rendered.
- (vi) Revenue from construction contracts of wastewater treatment construction is recognised by reference to the percentage of completion of the contracts at the reporting date (note 4(k)).
- (vii) Revenue from public infrastructure projects is recognised when services are rendered.
- (viii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.
- (ix) Interest income is recognised on a time-proportion basis using the effective interest method.
- (x) Financial income from wastewater treatment, public infrastructure projects is recognised as it accrues using the effective interest method.
- (xi) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

(xii) Finance lease income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

(o) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill, if any, and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised as other income in profit or loss on a systematic basis over the useful life of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- payments for leasehold land held for own use under operating leases;
- intangible assets with finite lives; and
- investments in subsidiaries and associates.

If the recoverable amount (i.e. the greater of fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(s) Employee benefits

(i) *Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of each reporting period in which the employees render the related service. Short term employee benefits are recognised in the period when the employees render the related service.

(ii) *Defined contribution retirement plan*

Contributions to defined contribution retirement plans are recognised as an expense in the profit or loss when the services are rendered by the employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits *(Continued)*

(iii) **Defined benefit retirement plans**

One of the subsidiaries of the Company provides supplementary pension subsidies to retired employees in the PRC. Such supplementary pension subsidies are considered as defined benefit plans. The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of reductions in future contributions to the plans. A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

(iv) **Termination benefits**

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve. Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

(u) Related parties

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

- (i) the party is a person or a close member of that person’s family and that person
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or of a parent of the Group; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

- (ii) the party is an entity where any of the following conditions applies:
- (a) the entity and the Group are members of the same group;
 - (b) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (c) the entity and the Group are joint ventures of the same third party;
 - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (f) the entity is controlled or jointly controlled by a person identified in (i);
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (h) the entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(a) Judgements

Consolidation of entities in which the Group holds 50% voting rights

Control over Shanghai Dazhong Gas Co., Ltd. ("Shanghai Dazhong Gas")

The Company and Shanghai Gas (Group) Co., Ltd. ("Shanghai Gas Group") each holds a 50% equity interests in Shanghai Dazhong Gas and each party has the right to appoint three directors to the six-member board of directors. The legal representative and the chairman of the board of Shanghai Dazhong Gas, Mr. Yang Guoping, is appointed by the Group pursuant to the articles of association of Shanghai Dazhong Gas. In assessing whether the Group has power over Shanghai Dazhong Gas, the following considerations were taken into account:

Purpose and design of Shanghai Dazhong Gas: The directors consider that the purpose and design since the establishment of Shanghai Dazhong Gas is for the Group to control it. Moreover, the management and operation system of Shanghai Dazhong Gas was set up by the Group and key management personnel overseeing the relevant activities which significantly affect the returns. (i.e. the "Relevant Activities") are nominated and appointed by the Group. In addition, the Group has veto right to block any changes to the current system.

Relevant Activities of Shanghai Dazhong Gas and how decisions about the Relevant Activities are made:

The directors have determined that the Relevant Activities of Shanghai Dazhong Gas are: (a) design and construction of gas pipelines; (b) appointment, evaluation and remuneration of key management personnel; (c) budgeting and financial management; (d) management of supply and sales volume difference and major customer discount; and (e) strategic investments. On the other hand, given the strict regulation in the gas supplies supply, neither the Group nor Shanghai Gas Group, which was also the key gas supplier of the Group in Shanghai, was able to adjust the gas procurement and retail price or opt to suspend or terminate gas supply. Accordingly, the directors conclude that supply and sale of piped gas (excluding management of supply and sale volume difference and major customer discount) are not the Relevant Activities. While it was no specified in the articles of association or shareholders' agreement of Shanghai Dazhong Gas, in practice, all important decisions relating to the Relevant Activities were made at the executive management meetings led by the chairman of the board appointed by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(Continued)

(a) Judgements (Continued)

Consolidation of entities in which the Group holds 50% voting rights (Continued)

Control over Shanghai Dazhong Gas (Continued)

The current ability of the Group to direct relevant activities: The directors concluded that the Group has the current ability to direct the Relevant Activities of Shanghai Dazhong Gas as:

- the Group can nominate and appoint key management personnel of Shanghai Dazhong Gas, which includes the chairman and legal representative, secretary of the board, chief financial officer, chief economist and chief engineer. These key management personnel are those who collectively and individually have the ability to direct the Relevant Activities;
- the chairman appointed by the Group directs Shanghai Dazhong Gas on all significant transactions through his active leadership in the executive management meetings. The chairman is also the legal representative of Shanghai Dazhong who is responsible for signing key contracts with external parties and making relevant payments; and
- the Group has majority voting rights at the remuneration committee which determines the remuneration of key management as an incentive to achieve operational and financial goals of Shanghai Dazhong Gas.

The directors also consider that Shanghai Dazhong Gas does not rely on Shanghai Gas Group operationally or financially and Shanghai Gas Group cannot unilaterally approve any changes to the arrangement discussed above. Based on the above, the directors consider that the Group is the party that has power over Shanghai Dazhong Gas.

Since the Group holds 50% equity interests in Shanghai Dazhong Gas, it is considered that the Group has sufficient exposure from variable returns of Shanghai Dazhong Gas and is able to use its power to affect the variable returns.

Based on all relevant facts and circumstances above, the directors consider that the Company has the practical ability to direct the relevant activities of Shanghai Dazhong Gas, which demonstrates the Group has power over Shanghai Dazhong Gas, exposure to variable returns from Shanghai Dazhong Gas and ability to use its power to affect its variable returns throughout the year.

Control over Nantong Dazhong Gas Co., Ltd. ("Nantong Dazhong Gas")

The Group and Nantong Gas General Group each holds 50% equity interest in Nantong Dazhong Gas and each has appointed three directors to the board of directors which currently comprises of six members. The Group has also appointed the chairman of the board, the vice general manager and the financial controller of Nantong Dazhong Gas. In addition, the procedural rules of the board of directors of Nantong Dazhong Gas specifically provides that the chairman of the board has (i) a casting vote in the event of a deadlock of board vote and (ii) a veto right on matters in daily operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(Continued)

(a) Judgements *(Continued)*

Consolidation of entities in which the Group holds 50% voting rights *(Continued)*

Control over Nantong Dazhong Gas (Continued)

Based on all relevant facts and circumstances above, the directors consider that the Company has the practical ability to direct the relevant activities of Nantong Dazhong Gas, which denominates the Group has power over Nantong Dazhong Gas, exposure to variable returns from Nantong Dazhong Gas and ability to use its power to affect its variable returns throughout the year.

Control over Shanghai Minhang Dazhong Micro-Credit Co., Ltd. ("Minhang Dazhong Micro-Credit")

The Company is the largest shareholder of Minhang Dazhong Micro-Credit and controls its board of directors. The Company holds 50% equity interests in Minhang Dazhong Micro-Credit. The remaining 50% equity interests in Minhang Dazhong Micro-Credit is held as to 20% by Shanghai Hongkou Dazhong Taxi Co., Ltd. (上海虹口大眾出租汽車有限公司), a wholly-owned subsidiary of Dazhong Transportation Group (as defined in note 26(a)), 10% by Songz Automobile Air Conditioning Co., Ltd. (上海虹加冷松芝汽車空調股份有限公司) (held as to 2.16% by the Company), 10% by Shanghai Tofflon Science & Technology Co., Ltd. (上海東富龍科技股份有限公司), an independent third party, and 10% by Shanghai Gumei Asset Management Co., Ltd. (上海古美資產經營管理有限公司), an independent third party. The Group appointed three directors to the board of directors of Minhang Dazhong Micro-Credit, which comprises of five members.

Based on all relevant facts and circumstances above, the directors consider that the Company has the practical ability to direct the relevant activities of Minhang Dazhong Micro-Credit, which demonstrates the Group has power over Minhang Dazhong Micro-Credit, exposure to variable returns from Minhang Dazhong Micro-Credit and ability to use its power to affect its variable returns throughout the year.

Significant influence over investees

The Group has an investment in an entity, namely Shenzhen Capital Group (as defined in note 26(a)), in which it holds 13.93% of its equity interests. The directors consider that the Group has a significant influence over this entity based on the following factors: (1) the Group has the right to appoint 2 directors out of a total of 13 directors of the board of directors of Shenzhen Capital Group and (2) these 2 directors also act as members of strategy and budget committee, remuneration and assessment committee and nomination committee of Shenzhen Capital Group. The above demonstrates that the Group actively participates in the entity's operating and financial policies, and thus investment in Shenzhen Capital Group is accounted for as an associate of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(Continued)

(a) Judgements (Continued)

Significant influence over investees (Continued)

The Group also has investments in two entities, namely Shanghai Hangxin (as defined in note 26(a)) and Suchuang Gas (as defined in note 26(a)), in which the Group holds 16.13% and 19.76% of their equity interests respectively. The directors consider that the Group has significant influence over Shanghai Hangxin based on the following factors: (1) the Group has appointed 1 director (also the chairman) to the boards of directors which consisting 9 executive directors; and (2) the appointed director actively participates in the policy-making process of the entity. Besides, the directors consider that the Group has significant influence over Suchuang Gas based on the following factors: (1) the Group has appointed 1 director to the boards of directors which consisting 9 directors; and (2) the appointed director actively participates in the policy-making process of the entity.

The Group has investments in another four entities in which it holds 29%, 30%, 40% and 42.5% of their equity interests respectively. The directors consider that the Group has no significant influence over these entities based on the following factors: (1) the Group is unable to obtain from these entities timely or adequate financial information required to apply the equity method and (2) the shareholder that holds the majority ownership of these entities operates without regard to the views of the Group. The Group therefore does not have the power to participate in these entities' operating and financial policies, and thus it accounts for these investments as available-for-sale financial assets.

(b) Estimation and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives of non-current assets

The Group depreciates the property, plant and equipment and investment properties and amortises the payments for leasehold land held for own use under operating leases and the intangible assets over their estimated useful lives in accordance with the accounting policies stated in notes 4(e), 4(f), 4(g) and 4(i) respectively. Such estimated useful lives reflect the directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

Impairment of non-financial assets (except for goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or corresponding cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(Continued)

(b) Estimation and assumptions *(Continued)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of the Group's goodwill as at December 31, 2016 is RMB1,312,000 (2015: nil). There was no impairment loss on goodwill charged to profit and loss during the year ended December 31, 2016.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

Construction contracts

As explained in accounting policies stated in note 4(k), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of each reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

Estimation of the amortisation period of deferred income

The Group receives fees from customers in advance in exchange for the connection of their gas pipelines. These fees are received upfront and gradually amortised. The Group determines the estimated amortisation period of ten years for its revenue recognition. Any change in the estimation would significantly affect the timing of revenue recognition.

Retirement benefit obligations

The retirement benefit obligations are estimated based on a number of factors that are determined on an actuarial basis using a number of assumptions as disclosed in note 43. The accuracy of the estimate mainly depends on the extent of deviation between the actuarial assumptions and the actual conditions. Any changes in these assumptions will have an impact on the carrying amount of retirement benefit obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(Continued)

(b) Estimation and assumptions (Continued)

IFRIC 12 "Service Concession Arrangements"

As explained in note 4(m), the Group recognises its BOT and TOT arrangements under IFRIC 12 "Service Concession Arrangements" because (i) the Grantors control and regulate the services that the Group must provide with the infrastructure at a pre-determined service charge in respect of these BOT and TOT arrangements, and (ii) upon expiry of concession right agreement, the infrastructure has to be transferred to the Grantors at nil or minimal consideration.

The fair value of the construction services under each of the BOT arrangements was calculated as the estimated total construction cost plus a profit margin. The profit margins were estimated based on prevailing market rates applicable to similar construction services rendered in similar locations at dates of agreements.

The Group recognises the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset under public-to-private concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future wastewater treatment volume of the relevant wastewater treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates are determined by the Group's management based on its experience and assessment on current and future market condition. Any change in the key assumptions, such as discount rate of 5.4% that the Group used, will result in change in the carrying value of the financial receivable.

Subsequently to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and impairment losses. The estimated useful life of an intangible asset, which is the key assumption in a service concession arrangement, is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period. Any change in the expected useful life would change the carrying amount of the intangible assets.

Estimation of assets restoration obligations

The Group has contractual obligations whereby it must fulfill as a condition of its licence that is to maintain the wastewater treatment plants it operates to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. Provision is recognised for the future restoration, which the amount recognised is the present value of the estimate future expenditure. The estimation of the future expenditure is based on current local conditions and requirements, including legal requirement, contractual requirement, technology, price level, etc. Changes in any of these estimates will impact the level of provision made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(Continued)

(b) Estimation and assumptions *(Continued)*

Classification between finance lease and operating lease

Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) and operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor). Situations that would normally lead to a lease being classified as a finance lease include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable and, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

6. SEGMENT INFORMATION

The Group determines its operating segment based on the reports reviewed by the Group's chief operating decision maker, which are the Company's executive directors that are used to make strategic decisions.

The Group has six reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Piped gas supply;
- Wastewater treatment;
- Public infrastructure projects;
- Investments;
- Transportation services; and
- Financial services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

6. SEGMENT INFORMATION (Continued)

(a) Business segment

For the year ended December 31, 2016	Piped gas supply RMB'000	Wastewater treatment RMB'000	Public Infrastructure projects RMB'000	Investments RMB'000	Transportation services RMB'000	Financial services RMB'000	Segment total RMB'000
Revenue from external customers	4,243,555	178,133	55,497	-	-	91,211	4,568,396
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	4,243,555	178,133	55,497	-	-	91,211	4,568,396
Reportable segment profit	142,854	60,598	28,600	429,416	140,548	60,769	862,785
Unallocated income/(expenses), net							(64,545)
Unallocated interest income							8,573
Unallocated interest expenses							(126,303)
Profit before income tax expense							680,510
Income tax expense							(46,700)
Profit for the year							633,810
Reportable segment assets	5,588,581	1,220,905	745,190	2,996,725	2,469,758	1,533,123	14,554,282
Unallocated cash and cash equivalents							2,329,727
Corporate assets*							125,880
Total assets							17,009,889
Reportable segment liabilities	4,028,188	236,871	251,284	397,246	-	754,321	5,667,910
Unallocated borrowings							799,300
Corporate bonds and short-term bonds payable							1,897,469
Corporate liabilities [‡]							450,788
Total liabilities							8,815,467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

6. SEGMENT INFORMATION (Continued)

(a) Business segment (Continued)

For the year ended December 31, 2016	Piped gas supply RMB'000	Wastewater treatment RMB'000	Public Infrastructure projects RMB'000	Investments RMB'000	Transportation services RMB'000	Financial services RMB'000	Segment total RMB'000
Other segment information:							
Share of results of associates	11,726	11	-	349,328	140,548	-	501,613
Interest income	7,243	524	769	689	-	941	10,166
Interest expenses	12,667	4,103	9,678	6,422	-	21,053	53,923
Investment income and gains, net	-	-	-	111,126	-	-	111,126
Amortisation	1,927	22,639	-	-	-	82	24,648
Depreciation	324,436	3,005	89	-	-	666	328,196
Impairment loss/(reversal of) on trade receivables	463	143	(3)	-	-	-	603
Impairment loss on loan receivables	-	-	-	-	-	526	526
(Reversal of)/ impairment loss on prepayments and other receivables	(73)	421	2	-	-	29	379
Loss on disposal of property, plant and equipment	13,350	-	-	-	-	-	13,350
Loss on disposal of subsidiaries	-	4,529	-	-	-	-	4,529
Compensation income	22,090	-	-	-	-	-	22,090
Investments in associates	372,572	30,059	-	1,812,097	2,469,758	-	4,684,486
Additional to non-current assets	655,897	163,662	-	-	-	15,987	835,546

* Corporate assets consisted of property, plant and equipment, investment properties, goodwill, intangible assets and prepayments and other receivables for the amounts approximately RMB30.1 million, RMB65.0 million, RMB1.3 million, RMB0.2 million and RMB29.3 million respectively.

Corporate liabilities consisted of other payables, salary payables, dividend and interest payable and deferred tax liabilities for the amounts approximately RMB370.3 million, RMB24.1 million, RMB1.8 million and RMB54.6 million respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

6. SEGMENT INFORMATION (Continued)

(a) Business segment (Continued)

For the year ended December 31, 2015	Piped gas supply RMB'000	Wastewater treatment RMB'000	Public Infrastructure projects RMB'000	Investments RMB'000	Transportation services RMB'000	Financial services RMB'000	Segment total RMB'000
Revenue from external customers	4,359,700	148,256	58,112	-	-	50,527	4,616,595
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	4,359,700	148,256	58,112	-	-	50,527	4,616,595
Reportable segment profit	55,610	50,745	27,181	202,360	338,686	37,029	711,611
Unallocated income/(expenses), net							(15,561)
Unallocated interest income							10,720
Unallocated interest expenses							(133,613)
Profit before income tax expense							573,157
Income tax expenses							(37,432)
Profit for the year							535,725
Reportable segment assets	4,924,640	1,063,327	885,320	3,251,309	2,076,060	1,405,077	13,605,733
Unallocated cash and cash equivalents							429,807
Corporate assets*							145,026
Total assets							14,180,566
Reportable segment liabilities	3,786,586	184,839	297,938	62,161	-	682,502	5,014,026
Unallocated borrowings							668,900
Corporate bonds payable							1,590,465
Corporate liabilities [†]							127,989
Total liabilities							7,401,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

6. SEGMENT INFORMATION (Continued)

(a) Business segment (Continued)

For the year ended December 31, 2015	Piped gas supply RMB'000	Wastewater treatment RMB'000	Public Infrastructure projects RMB'000	Investments RMB'000	Transportation services RMB'000	Financial services RMB'000	Segment total RMB'000
Other segment information:							
Share of results of associates	-	-	-	141,026	122,300	-	263,326
Interest income	7,720	999	841	326	-	1,267	11,153
Interest expenses	16,440	6,094	13,822	265	-	6,395	43,016
Investment income and gains, net	-	-	-	72,081	-	-	72,081
Gain on partial disposal of equity interests in an associate	-	-	-	-	216,386	-	216,386
Amortisation	1,895	10,264	-	-	-	42	12,201
Depreciation	305,371	5,581	89	-	-	646	311,687
Impairment loss/(reversal of impairment loss) on trade receivables	1,367	(94)	78	-	-	-	1,351
Impairment loss on loan receivables	-	-	-	-	-	4,817	4,817
Impairment loss on prepayments and other receivables	1,834	87	-	-	-	-	1,921
Impairment loss on property, plant and equipment	51,712	-	-	-	-	-	51,712
Loss on disposal of property, plant and equipment	9,067	-	-	-	-	-	9,067
Compensation loss in connection with disposal of a subsidiary in prior year	-	-	-	80,000	-	-	80,000
Investments in associates	-	-	-	2,006,150	2,076,060	-	4,082,210
Additional to non-current assets	504,432	63,640	-	-	-	643	568,715

* Corporate assets consisted of property, plant and equipment, investment properties, intangible assets, prepayments and other receivables and amount due from an associate for the amounts approximately RMB3.9 million, RMB67.1 million, RMB4.1 million, RMB9.6 million and RMB60.3 million respectively.

Corporate liabilities consisted of other payables, salary payables, dividend and interest payable and deferred tax liabilities for the amounts approximately RMB21.4 million, RMB22.8 million, RMB1.7 million and RMB82.1 million respectively.

(b) Geographic information

Geographical information is not presented since all of the Group's revenue from external customers is generated in the PRC. The non-current asset information is based on the location of the assets and excludes financial instruments and deferred tax assets. Nearly all of the non-current assets of the Group are located in the PRC, which is the Company's country of domicile.

(c) Information about major customers

The Group has a number of customers and there is no significant revenue derived from specific external customers during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

7. REVENUE

Revenue represents the net invoiced value of goods sold, after discounts and returns; the value of services rendered; an appropriate proportion of contract revenue of construction contracts; and interest income earned from provision of finance during the year.

An analysis of revenue is as follows:

	2016 RMB'000	2015 RMB'000
Piped gas supply:		
Sale of gas fuel	3,545,669	3,638,430
Gas pipeline construction income	350,787	394,199
Gas connection income (note 41)	218,112	207,343
Sale of related products	128,987	119,728
Wastewater treatment:		
Operations income	145,340	112,251
Financial income	32,793	36,005
Public infrastructure projects:		
Operations income	14,781	12,817
Financial income	40,716	45,295
Financial services:		
Interest income and related revenue	22,869	28,996
Financial leasing related income	68,342	21,531
	4,568,396	4,616,595

8. OTHER INCOME AND GAINS

	2016 RMB'000	2015 RMB'000
Bank interest income	14,620	17,319
Other interest income	4,119	4,554
Government grants	13,060	12,700
Loss on disposal of property, plant and equipment (note 20)	(13,358)	(9,067)
Rental income	10,567	11,461
Compensation income (note)	22,090	-
Others	6,012	8,853
	57,110	45,820

Note: Compensation income from related parties are recognised during this year for compensation for certain property, plant and equipment that the Group given up in prior year. The Company only recognised this compensation income in current year as the amount can only be reliably measured in this year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

9. DISPOSAL OF SUBSIDIARIES

On July 14, 2016, a subsidiary of the Group entered into two share transfer agreements to dispose 51% of each of its two wholly-owned subsidiaries, namely Pizhou Fountainhead Water Operation Co., Ltd. and Xuzhou Fountainhead Sewage Co., Ltd., both of which were engaged in wastewater treatment business. Subsequent to the disposal, these entities become associates of the Group. The net assets at disposal date were as follows:

Pizhou Fountainhead Water Operation Co., Ltd.

	July 14, 2016 RMB'000
Property plant and equipment	4,748
Intangible assets	22,408
Inventories	33
Trade and bill receivables	1,372
Prepayments and other receivables	15,303
Deferred tax assets	550
Cash and cash equivalents	1,304
Borrowings	(7,384)
Trade and bill payables	(2,307)
Other payables	(157)
Provision for restoration	(2,345)
	33,525
Loss on disposal of a subsidiary	(2,588)
	30,937
Total consideration	30,937
Total consideration satisfied by:	
Cash received	4,837
Consideration receivable	9,673
Fair value of equity interest retained as an associate	16,427
	30,937
Cash consideration received	4,837
Cash and cash equivalents disposed of	(1,304)
	3,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

9. DISPOSAL OF SUBSIDIARIES (Continued)

Xuzhou Fountainhead Sewage Co., Ltd.

	July 14, 2016 RMB'000
Property plant and equipment	7,670
Intangible assets	21,893
Trade and bill receivables	1,306
Prepayments and other receivables	4,421
Deferred tax assets	722
Cash and cash equivalents	636
Borrowings	(2,750)
Trade and bill payables	(369)
Other payables	(1,329)
Provision for restoration	(3,034)
	29,166
Loss on disposal of a subsidiary	(1,941)
	27,225
Total consideration	27,225
Total consideration satisfied by:	
Cash received	4,079
Consideration receivable	8,157
Fair value of equity interest retained as an associate	14,989
	27,225
Net cash inflow arising on disposal:	
Cash consideration received	4,079
Cash and cash equivalents disposed of	(636)
	3,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

10. BUSINESS ACQUISITION

On June 29, 2016, the Group acquired 100% of the equity interests of Shanghai Dazhong Transportation Commerce Co., Ltd. ("Shanghai Dazhong Transportation Commerce"), a company whose principal activity is provision of payment services. The acquisition was made with the aims to expand the Group's business.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	RMB'000	RMB'000
Property, plant and equipment	1,515	
Long-term prepayments	397	
Trade receivables	369	
Prepayments and other receivables	14,215	
Cash and cash equivalents	140,292	
Other current assets	372	
Other current liabilities	(60,358)	
		96,802
Cash consideration paid		(98,114)
		1,312
Cash flow:		
Cash payment		98,114
Cash and cash equivalents acquired		(140,292)
Net cash inflow arising from acquisition		(42,178)

The fair value of trade receivables amounted to approximately RMB369,000. In the opinion of the directors, no receivable is expected to be uncollectible.

The goodwill of RMB1,312,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Since the acquisition date, Shanghai Dazhong Transportation Commerce has not yet recorded any revenue and profit before income tax expense. If the acquisition had occurred on January 1, 2016, the Group's revenue and profit before income tax expense for the year would have been RMB4,569.9 million and RMB678.4 million respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2016, nor is it intended to be a projection of future performance.

The acquisition-related costs were not material, and have been expensed and are included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

11. INVESTMENT INCOME AND GAINS, NET

	2016 RMB'000	2015 RMB'000
Gain/(loss) on disposal of financial assets, net:		
— Financial assets at fair value through profit or loss — held for trading	(124,835)	1,587
— Available-for-sale financial assets	13,643	37,164
— Government bonds	2,450	3,505
	(108,742)	42,256
Change in fair value of financial assets at fair value through profit or loss	(1,621)	(21,784)
Dividend income	213,610	44,353
Other financial income	7,879	7,256
	111,126	72,081

12. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings and corporate bonds	180,486	179,962
Less: Amounts capitalised (note)	(260)	(3,333)
	180,226	176,629

Note: Borrowing costs capitalised during the years arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.00% (2015: 5.84%) to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

13. EMPLOYEE COMPENSATION COSTS

	2016 RMB'000	2015 RMB'000
Wage, salaries and allowances	385,011	307,949
Retirement benefit scheme contribution	103,358	86,631
Other benefits	61,424	58,674
	549,793	453,254

14. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	2016 RMB'000	2015 RMB'000
Inventories recognised as expense	2,802,652	2,913,209
Amortisation on payments for leasehold land held for own use under operating leases	2,084	2,250
Amortisation on intangible assets (included in administrative expenses and cost of sales)	22,834	10,203
Auditor's remuneration	2,700	1,550
Depreciation of property, plant and equipment	328,898	312,261
Depreciation of investment properties	2,199	2,199
Impairment loss on property, plant and equipment	–	51,712
Impairment loss on trade receivables	603	1,351
Impairment loss on loan receivables	526	4,817
(Reversal of impairment loss)/impairment loss on prepayments and other receivables, net	(484)	1,921
Operating lease rental expenses in respect of buildings	10,322	11,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

15. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year is disclosed as follows:

For the year ended December 31, 2016	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefit plans contributions RMB'000	Total RMB'000
Executive directors:				
Yang Guoping	–	4,170	334	4,504
Zhong Jinxing	–	2,767	221	2,988
Liang Jiawei (note (b))	–	3,273	262	3,535
Yu Min (note (b))	–	2,900	232	3,132
Yang Jicai	–	2,262	181	2,443
Zhuang Jianhao	–	1,889	151	2,040
Non-executive director:				
Li Songhua (note (g))	–	–	–	–
Independent non-executive directors:				
Cai Jianmin	–	–	–	–
Jiang Guofang (note (e))	–	–	–	–
Yan Xuehai (note (f))	100	–	–	100
Yao Chofai Andrew (note (b))	100	–	–	100
Chow Siului (note (d))	–	–	–	–
Supervisors:				
Cao Yongqin	100	–	–	100
Zhao Siyuan	–	–	–	–
Yang Weibiao	–	1,186	95	1,281
	300	18,447	1,476	20,223

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

15. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

For the year ended December 31, 2015	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefit plans contributions RMB'000	Total RMB'000
Executive directors:				
Yang Guoping	–	2,300	268	2,568
Zhong Jinxing	–	1,833	215	2,048
Chen Jingfeng (note (a))	–	1,592	–	1,592
Liang Jiawei (note (b))	–	1,248	112	1,360
Yu Min (note (b))	–	1,211	113	1,324
Yang Jicai	–	1,341	200	1,541
Li Songhua (note (g))	–	–	–	–
Zhuang Jianhao	–	1,496	–	1,496
Independent non-executive directors:				
Cai Jianmin	–	–	–	–
Jiang Guofang (note (e))	80	–	–	80
Yan Xuehai	80	–	–	80
Yao Chofai Andrew (note (b))	–	–	–	–
Supervisors:				
Cao Yongqin	–	–	–	–
Zhao Siyuan	–	–	–	–
Yang Weibiao (note (b))	–	482	65	547
Yu Min (note (c))	–	772	113	885
	160	12,275	1,086	13,521

Notes:

- (a) Resigned in June 2015
- (b) Appointed in July 2015
- (c) Resigned in July 2015
- (d) Appointed in December 2016
- (e) Resigned in December 2016
- (f) The Company received a resignation letter from Mr. Yan Xuehai resigning as an independent non-executive Director and the member of the audit committee of the Company due to his health condition on February 20, 2017. According to the Guidelines for the Establishment of Independent Directors System by Listed Companies issued by the China Securities Regulatory Commission, Mr. Yan's resignation shall not take effect until the election of a new independent non-executive Director at the general meeting of the Company.
- (g) Resigned as executive directors and appointed as non-executive director in December 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

16. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, five (2015: five) were directors of the Company whose emoluments are included in the disclosures in note 15 above.

During the year ended December 31, 2016, no emoluments were paid by the Group to any of the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2015: nil). None of the directors waived emoluments during the year (2015: nil).

17. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

	2016 RMB'000	2015 RMB'000
PRC enterprise income tax		
— tax for the year	47,620	44,966
— under-provision in respect of prior years	144	1,635
Hong Kong profits tax		
— tax for the year	—	—
Deferred tax (note 31)	(1,064)	(9,169)
Income tax expense	46,700	37,432

Profits of subsidiaries established in the PRC are subject to PRC enterprise income tax based on the statutory rate of 25% (2015: 25%) during the year.

Profits of subsidiaries established in Hong Kong are subject to Hong Kong Profits tax at the statutory rate of 16.5% (2015: 16.5%) during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

17. INCOME TAX EXPENSE (Continued)

The income tax expense can be reconciled to the profit before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax expense	680,510	573,157
Tax calculated at the PRC statutory rate of 25% (2015: 25%)	170,128	143,289
Effect of non-taxable income	(35,260)	(30,574)
Effect of non-deductible expenses	7,699	2,285
Tax effect of share of results of associates	(125,403)	(65,831)
Utilisation of tax losses previously not recognised	(9,912)	(26,478)
Tax effect of tax losses not recognised	49,903	2,039
Tax effect on changes on fair value of financial assets, impairment loss on assets and timing difference on employee benefits	(2,929)	12,852
Effect of tax exemptions granted to subsidiaries (note)	(6,019)	(1,785)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,651)	–
Under-provision in respect of prior years	144	1,635
Income tax expense	46,700	37,432

Note: According to the relevant PRC Enterprise Income Tax Law, Xuzhou Dazhong Water Operation Co., Ltd., a subsidiary of the Group, was approved by the Jiangsu Provincial Donghai County National Tax Authority to enjoy a 50% reduction of enterprise income tax for the years from 2014 to 2016.

According to the relevant PRC Enterprise Income Tax Law, the phase III project of Shanghai Dazhong Jiading Sewage Co., Ltd., a subsidiary of the Group, was approved by the Shanghai District County National Tax Authority to enjoy a 100% reduction of enterprise income tax for the years from 2016 to 2018, and a 50% deduction of enterprise income tax for the years from 2019 to 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

18. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Final dividend proposed after the end of the year of RMB0.06 (2015: RMB0.06) per ordinary share	177,146	148,038

On 30 March 2017, the board of directors recommended the payment of final dividend of RMB0.06 per share, totaling approximately RMB177,146,000 for the year ended 31 December 2016. The proposed final dividend per share is based on the number of issued shares of the Company (i.e. 2,952,434,675 shares) as of the date of the board meeting (i.e. 30 March 2017) determining the final dividend.

The final dividend after the end of the year is subject to shareholders' approval in the forthcoming annual general meeting. The proposed dividends are not reflected as a dividend payable in the financial statements at the end of each year.

For non-residents shareholders, under the PRC Enterprises Income Tax Law, dividends paid by the Company are ordinarily subject to PRC enterprise income tax at a withholding tax rate of 10% which would deduct directly from dividends.

19. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2016	2015
Earnings		
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	547,642	463,800
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	2,499,424,347	2,467,304,675

After the issue of the Bonus Shares as defined and described in note 45(i) on May 27, 2015, the calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the year ended December 31, 2015 was based on the assumption that the Bonus Shares had been in issue throughout the year 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

19. EARNINGS PER SHARE (Continued)

On December 5, 2016, the Company successfully listed on the Main Board of SEHK and issued 435,400,000 new shares of H shares at offering price of HKD3.60 per H share and in the meantime, converted 43,540,000 A shares to 43,540,000 H shares. As a result, the Company has increased an aggregated 478,940,000 H shares and decreased 43,540,000 A shares immediately after the completion of the transaction. As at December 31, 2016, the Company had 478,940,000 H shares and 2,423,764,675 A shares respectively. The H shares rank pari passu in all respects with the existing A shares including the rights to receive all dividends and distribution declared and made.

The diluted earnings per share is equal to the basic earnings per share because the Company had no dilutive potential shares outstanding for all periods presented.

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Motor vehicles	Gas pipelines and machinery	Equipment, furniture and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At January 1, 2015	193,130	13,813	59,133	5,567,960	48,320	733,808	6,616,164
Additions [#]	368	821	1,610	1,304	772	513,123	517,998
Transfer of construction in progress	4,500	-	6,357	581,533	6,737	(599,127)	-
Disposals	(101)	-	(7,786)	(144,467)	(5,000)	-	(157,354)
At December 31, 2015 and January 1, 2016	197,897	14,634	59,314	6,006,330	50,829	647,804	6,976,808
Additions [#]	3,095	3,434	2,543	2,289	1,053	806,044	818,458
Acquired through business acquisition (note 10)	-	30	6	1,416	63	-	1,515
Transfer of construction in progress	318	-	6,496	674,430	2,447	(683,691)	-
Transfer to intangible assets (note 24)	(47,388)	-	-	(14,366)	-	(174,004)	(235,758)
Disposals of subsidiaries (note 9)	-	-	(203)	-	-	(12,263)	(12,466)
Disposals	-	(2,118)	(7,345)	(101,270)	(3,825)	(47,627)	(162,185)
At December 31, 2016	153,922	15,980	60,811	6,568,829	50,567	536,263	7,386,372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Gas pipelines and machinery RMB'000	Equipment, furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation and impairment							
At January 1, 2015	66,549	8,378	27,525	2,233,426	34,242	-	2,370,120
Charge for the year	6,102	1,351	5,524	295,026	4,258	-	312,261
Impairment loss charged for the year	-	-	-	51,712	-	-	51,712
Written back on disposals	(97)	-	(7,319)	(135,523)	(4,715)	-	(147,654)
At December 31, 2015 and January 1, 2016	72,554	9,729	25,730	2,444,641	33,785	-	2,586,439
Charge for the year	5,291	1,694	5,671	312,135	4,107	-	328,898
Transfer to intangible assets (note 24)	(11,795)	-	-	(10,227)	-	-	(22,022)
Disposals of subsidiaries (note 9)	-	-	(48)	-	-	-	(48)
Written back on disposals	-	(211)	(6,385)	(87,123)	(3,636)	-	(97,355)
At December 31, 2016	66,050	11,212	24,968	2,659,426	34,256	-	2,795,912
Net book value							
At December 31, 2016	87,872	4,768	35,843	3,909,403	16,311	536,263	4,590,460
At December 31, 2015	125,343	4,905	33,584	3,561,689	17,044	647,804	4,390,369

Including borrowing costs of approximately RMB260,000 (2015:RMB3,333,000) capitalised during the year ended December 31, 2016 (note 12).

Due to the fact that certain gas pipelines of the Group were no longer used during the year ended December 31, 2015, management estimated the recoverable amount of these gas pipelines, based on their fair value less costs to sell, to be negligible as it was impractical to remove these gas pipelines from underground for resale. Accordingly, the Group fully impaired these assets in the segment of piped gas supply with net book value of RMB51,712,000 during the year ended December 31, 2015.

As at December 31, 2016, the Group had certain buildings which did not have proper property certificates for the carrying amount of RMB12,899,000 (2015:RMB13,541,000). The directors do not expect any restriction to continue the use of these properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

21. INVESTMENT PROPERTIES

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the cost model and are classified and accounted for as investment properties.

Changes to the carrying amounts presented in the consolidated statement of financial position are summarised as follows:

	RMB'000
Cost	
At January 1, 2015, December 31, 2015, January 1, 2016 and December 31, 2016	99,400
Accumulated depreciation	
At January 1, 2015	30,054
Charge for the year	2,199
At December 31, 2015 and January 1, 2016	32,253
Charge for the year	2,199
At December 31, 2016	34,452
Net book value	
At December 31, 2016	64,948
At December 31, 2015	67,147
Fair value	
At December 31, 2016	301,110
At December 31, 2015	306,640

The estimated useful life of the Group's investment properties is 50 years until March 2049. The fair value of the investment properties has been determined on market value basis by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

The investment properties of the Group are measured at cost. The fair value disclosed are categorised as Level 3 valuation. The valuation technique is direct comparison method based on market observable transactions of similar properties and adjusted to reflect the conditions and locations of the subject properties. The highest and best use of the investment properties of the Group does not differ from its current use.

As at December 31, 2016, the Group had certain investment properties which did not have proper property certificates for the carrying amount of RMB3,246,000 (2015: RMB3,395,000). The directors do not expect any restriction to continue the use of these properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

22. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	RMB'000
Cost	
At January 1, 2015, December 31, 2015 and January 1, 2016	97,407
Disposals	(11,063)
At December 31, 2016	86,344
Accumulated amortisation	
At January 1, 2015	14,322
Charge for the year	2,250
At December 31, 2015 and January 1, 2016	16,572
Charge for the year	2,084
Written back on disposals	(1,733)
At December 31, 2016	16,923
Net book value	
At December 31, 2016	69,421
At December 31, 2015	80,835

23. GOODWILL

	RMB'000
As at January 1, 2016	-
Acquired through business combination (note 10)	1,312
As at December 31, 2016	1,312

For the purpose of impairment testing goodwill is allocated to a subsidiary namely Shanghai Dazhong Transportation Commerce, a cash generating unit ("CGU") of the Group.

The recoverable amounts of this CGU are determined from value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, budgeted gross margin and turnover during the period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which does not exceed the long-term growth rate for the transportation industry in the PRC. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this CGU. The growth rates, budgeted gross margin and turnover are determined based on the past performance and management's expectation of market development. The rate used to discount the forecast cash flows is 18% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

24. INTANGIBLE ASSETS

	Wastewater treatment concession rights RMB'000	Computer software RMB'000	Technical knowhow RMB'000	Total RMB'000
Cost				
At January 1, 2015	241,719	4,418	5,646	251,783
Additions	5,679	6,098	–	11,777
At December 31, 2015 and January 1, 2016	247,398	10,516	5,646	263,560
Additions	31,279	74	–	31,353
Transfer from property, plant and equipment (note 20)	213,736	–	–	213,736
Disposals of subsidiaries (note 9)	(59,107)	–	–	(59,107)
At December 31, 2016	433,306	10,590	5,646	449,542
Accumulated amortisation and impairment				
At January 1, 2015	59,929	4,240	5,646	69,815
Charge for the year	9,527	676	–	10,203
At December 31, 2015 and January 1, 2016	69,456	4,916	5,646	80,018
Charge for the year	22,067	767	–	22,834
Disposals of subsidiaries (note 9)	(14,806)	–	–	(14,806)
At December 31, 2016	76,717	5,683	5,646	88,046
Net book value				
At December 31, 2016	356,589	4,907	–	361,496
At December 31, 2015	177,942	5,600	–	183,542

Before the year ended December 31, 2016, certain property, plant and equipment (the "Construction") of the Group used in the wastewater treatment are not required to be transferred to the grantor. During the year ended December 31, 2016, the Group obtained concession rights from the local government authority, and agreed that the Construction will be transferred to the grantor at the end of the concession period. As such, a carrying amount of approximately RMB213,736,000 of the Construction fall into the definition of IFRIC 12 "Service Concession Arrangements" and was transferred from property, plant and equipment to intangible assets accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

24. INTANGIBLE ASSETS (Continued)

The Group's service concession arrangements are concession arrangements for wastewater treatment plants with various local government authorities in the PRC under IFRIC 12 "Service Concession Arrangements". The concession rights arose from six wastewater treatment plants located in different cities in the PRC, namely Jiading, Sanbahe, Jiawang, Peixian, Pizhou and Lianyungang. Except for the wastewater plant in Pizhou which is operated under TOT arrangement, the rest are operated under BOT arrangements.

For wastewater treatment plants that are operated under BOT arrangements, the Group (the operator) was granted rights to construct, operate and maintain those wastewater plants for a period of 20 to 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfills the standard quality requirements of the grantors. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authorities. The infrastructure of the wastewater treatment plant, including the plant and equipment, know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantors or any grantors appointed agencies at the end of the concession period at nil or minimal consideration. The operator has the obligation to maintain and restore the wastewater treatment plants to their operational condition upon transferring to the grantors at the end of the concession period. These BOT arrangements do not contain renewal options. The arrangements will be early terminated only when a party breaches the relevant contracts or due to unforeseeable circumstances. All the operating rights of the above BOT arrangements are recognised as "intangible assets" in the consolidated financial statements.

For wastewater treatment plant in Pizhou, which is operated under TOT arrangement, the operator acquired the plant and was granted rights to operate and maintain the plant for a period of 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfills the standard quality requirements of the grantor. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authority. The infrastructure of the wastewater treatment plant, including the plant and equipment, know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantor or any grantor appointed agencies at the end of the concession period at nil consideration. The operator has the obligation to maintain and restore the wastewater treatment plant to its operational condition upon transferring to the grantor at the end of the concession period. The TOT arrangement does not contain renewal options. The arrangement will be early terminated only when a party breaches the contract or due to unforeseeable circumstances. The operating right of the above TOT arrangement is recognised as "intangible assets" in the consolidated financial statements.

As disclosed in note 9, two subsidiaries, namely Pizhou and Xuzhou of the Group which were engaged in wastewater treatment business were disposed on July 14, 2016. The relevant wastewater treatment concession rights in Pizhou and Jiawang District which is located in Xuzhou City in aggregate of RMB44,301,000 were derecognised during the year ended December 31, 2016. As at December 31, 2016, the Group only remained four wastewater treatment plants under BOT arrangements.

No advance payments were made to the grantors for getting the above BOT and TOT arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES

	2016 RMB'000	2015 RMB'000
Investment in subsidiaries		
— Unlisted shares, at cost	2,973,115	2,505,268

Details of the Company's subsidiaries as at December 31, 2016 are as follows:

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海大眾燃氣有限公司 ⁽¹⁾ Shanghai Dazhong Gas	January 3, 2001 PRC/PRC	RMB800,000,000	50	–	Piped gas supply
上海市南燃氣發展有限公司 ⁽¹⁾ Shanghai South Gas Development Co., Ltd. ("Shanghai South Gas")	April 18, 2001 PRC/PRC	RMB8,500,000	–	100	Construction and installation of gas pipelines
上海大眾燃氣投資發展有限公司 ⁽¹⁾⁽²⁾ Shanghai Dazhong Gas Investment Developing Co., Ltd. ("Shanghai Dazhong Gas Investment")	August 14, 2003 PRC/PRC	RMB107,100,000	100	–	Investment holdings
南通大眾燃氣有限公司 ⁽¹⁾ Nantong Dazhong Gas	December 11, 2003 PRC/PRC	RMB280,000,000	–	50	Piped gas supply
南通大眾燃氣設備有限公司 ⁽¹⁾ Nantong Dazhong Gas Equipment Co., Ltd. ("Nantong Gas Equipment")	April 28, 2004 PRC/PRC	RMB1,000,000	–	80	Sale of gas related products
南通大眾燃氣安裝工程有限公司 ⁽¹⁾ Nantong Dazhong Gas Installation Engineering Co., Ltd. ("Nantong gas Installation")	May 25, 1990 PRC/PRC	RMB20,000,000	–	100	Distribution and sale of piped natural gas
如東大眾燃氣有限公司 ⁽¹⁾ Rudong Dazhong Gas Co., Ltd ("Rudong Dazhong Gas")	February 8, 2006 PRC/PRC	RMB20,500,000	–	70	Distribution and sale of piped natural gas

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
南通開發區大眾燃氣有限公司 ⁽¹⁾ Nantong Developing Zone Dazhong Gas Co., Ltd. ("Nantong Development Zone Gas")	February 5, 2007 PRC/PRC	RMB50,000,000	–	100	Distribution and sale of piped natural gas
江蘇大眾水務集團有限公司 ⁽¹⁾ Jiangsu Dazhong Water Group Co., Ltd. ("Jiangsu Dazhong Water")	April 4, 1995 PRC/PRC	RMB50,000,000	–	80	Wastewater treatment operations
上海大眾市政發展有限公司 ⁽¹⁾ Shanghai Dazhong Municipal Development Co., Ltd.	September 15, 2003 PRC/PRC	RMB120,000,000	100	–	Municipal road operations
杭州蕭山錢塘污水處理有限公司 ⁽¹⁾ Hangzhou Xiaoshan Qiantang Sewage Co., Ltd.	February 11, 2004 PRC/PRC	RMB190,050,000	90	–	Wastewater treatment operations
上海大眾嘉定污水處理有限公司 ⁽¹⁾ Shanghai Dazhong Jiading Sewage Co., Ltd.	March 17, 2006 PRC/PRC	RMB200,000,000	10	90	Wastewater treatment operations
沛縣源泉水務運營有限公司 ⁽¹⁾ Peixian Fountainhead Water Operation Co., Ltd.	April 24, 2007 PRC/PRC	RMB5,800,000	–	100	Wastewater treatment operations
連雲港西湖污水處理有限公司 ⁽¹⁾ Lianyungang West Lake Sewage Co., Ltd.	December 27, 2007 PRC/PRC	RMB5,800,000	–	100	Wastewater treatment operations
徐州大眾水務運營有限公司 ⁽¹⁾ Xuzhou Dazhong Water Operation Co., Ltd.	April 12, 2010 PRC/PRC	RMB38,000,000	–	100	Wastewater treatment operations
上海翔殷路隧道建設發展有限公司 ⁽¹⁾ Shanghai Xiangyin Road Tunnel Construction Development Co., Ltd.	September 24, 2003 PRC/PRC	RMB285,000,000	87.16	12.84	Public infrastructure projects
海南大眾海洋產業有限公司 ⁽¹⁾ Hainan Dazhong Ocean Industry Co., Ltd.	June 4, 1998 PRC/PRC	RMB30,000,000	100	–	Dormant
上海衛銘生化股份有限公司 ⁽¹⁾ Shanghai Weiming Biochemistry Co., Ltd.	December 18, 1992 PRC/PRC	RMB75,600,000	–	87.67	Ocean business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
大眾(香港)國際有限公司 Dazhong (Hong Kong) International Corporation Limited ("Dazhong Hong Kong")	November 10, 2008 Hong Kong/ Hong Kong	United States Dollar ("USD") 10,500,000	95.24	4.76	Investment business
上海大眾集團資本股權投資有限公司 ⁽¹⁾ Shanghai Dazhong Group Capital Equity Investment Co., Ltd.	April 22, 2010 PRC/PRC	RMB500,000,000	99	1	Investment business
上海大眾交通商務有限公司 ⁽¹⁾ Shanghai Dazhong Transportation Commerce	June 25, 2008 PRC/PRC	RMB100,000,000	100	–	Payment services
上海閔行大眾小額貸款股份有限公司 ⁽¹⁾ Minhang Dazhong Micro-Credit	November 14, 2013 PRC/PRC	RMB200,000,000	50	–	Micro-credit services
Fretum Construction & Engineering Enterprise Limited ("FCEEL")	September 17, 2012 Hong Kong/ Hong Kong	USD3,000,000	–	100	Investment business
Galaxy Building & Development Corporation Limited ("GBDCL")	September 17, 2012 Hong Kong/ Hong Kong	USD3,000,000	–	100	Investment business
Ace Best Investing Management Corporation Limited ("ABIMCL")	September 17, 2012 Hong Kong/ Hong Kong	USD5,000,000	–	100	Investment business
瓊海春盛旅遊發展有限公司 ⁽¹⁾ Qionghai Chunsheng Travel Development Co., Ltd.	January 8, 2014 PRC/PRC	RMB5,500,000	100	–	Financial consultant
上海大眾資產管理有限公司 ⁽¹⁾ Shanghai Dazhong Assets Management Co., Ltd.	August 8, 2014 PRC/PRC	RMB500,000,000	100	–	Asset management
上海大眾融資租賃有限公司 ⁽¹⁾ Shanghai Dazhong Financial Leasing Co., Ltd. ("Shanghai Dazhong Financial Leasing")	September 19, 2014 PRC/PRC	RMB500,000,000	40	25	Financial leasing
上海大眾環境產業有限公司 ⁽¹⁾ Shanghai Dazhong Environment Industry Co., Ltd.	July 14, 2003 PRC/PRC	RMB252,000,000	88.97	11.03	Investment holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Interstellar Capital Investment Co., Limited	December 19, 2014 Hong Kong/ Hong Kong	USD10,000,000	-	100	Investment holdings
眾銀(國際)金融服務有限公司 Allpay (International) Finance Service Corporation Limited	April 8, 2016 Hong Kong/ Hong Kong	HKD25,000,000	-	60	Payment service
上海眾貢信息服務有限公司 ⁽¹⁾⁽³⁾ Shanghai Zhonggong Information Service Co., Ltd.	July 12, 2016 PRC/PRC	-	100	-	Consultant service
南海春茂生態農業發展有限公司 ⁽¹⁾ South China Sea Chunmao Ecological Agriculture Development Co., Ltd.	August 4, 2016 PRC/PRC	RMB2,000,000	70	-	Agriculture development

Notes:

- The English names of the subsidiaries registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.
- During the year ended December 31, 2016, the Group's interest in Shanghai Dazhong Gas Investment was increased from 93.37% to 100%.
- The registered capital of this company was RMB10,000,000 and there is no paid-in capital up to December 31, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES *(Continued)*

Shanghai Dazhong Gas (a 50% owned subsidiary of the Company), Nantong Dazhong Gas (a 50% owned subsidiary of the Company), Minhang Dazhong Micro-Credit (a 50% owned subsidiary of the Company) and Shanghai Dazhong Financial Leasing (a 65% owned subsidiary of the Company) have material non-controlling interests ("NCI"). The NCI of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to the significant non-controlling interest before intra-group elimination is presented below:

Shanghai Dazhong Gas

	2016 RMB'000	2015 RMB'000
Revenue	3,587,344	3,715,278
Profit for the year	78,946	52,662
Total comprehensive income for the year	108,318	47,860
Profit allocated to NCI	36,307	23,165
Dividends paid to NCI	–	–
Cash flows from operating activities	387,367	(11,474)
Cash flows from investing activities	(305,748)	(386,595)
Cash flows from financing activities	(11,374)	85,496
Net cash inflows/(outflows)	70,245	(312,573)
	2016 RMB'000	2015 RMB'000
Current assets	560,142	538,602
Non-current assets	3,482,990	3,217,655
Current liabilities	(2,340,759)	(2,154,715)
Non-current liabilities	(603,073)	(610,560)
Net assets	1,099,300	990,982
Accumulated NCI	555,458	504,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES (Continued)

Nantong Dazhong Gas

	2016 RMB'000	2015 RMB'000
Revenue	656,211	644,422
Profit for the year	43,874	43,397
Total comprehensive income for the year	43,874	43,397
Profit allocated to NCI	22,652	22,466
Dividends paid to NCI	14,500	10,000
Cash flows from operating activities	149,083	292,800
Cash flows from investing activities	(169,706)	(153,031)
Cash flows from financing activities	(32,399)	(24,568)
Net cash (outflows)/inflows	(53,022)	115,201
	2016 RMB'000	2015 RMB'000
Current assets	335,343	332,081
Non-current assets	1,137,795	1,060,312
Current liabilities	(447,072)	(436,417)
Non-current liabilities	(637,169)	(581,815)
Net assets	388,897	374,161
Accumulated NCI	194,194	186,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES (Continued)

Minhang Dazhong Micro-Credit

	2016 RMB'000	2015 RMB'000
Revenue	22,869	28,996
Profit for the year	13,434	13,394
Total comprehensive income for the year	13,434	13,394
Profit allocated to NCI	6,717	6,697
Dividend paid to NCI	9,000	–
Cash flows from operating activities	15,332	18,974
Cash flows from investing activities	(24,481)	(21,492)
Cash flows from financing activities	(23,282)	(1,295)
Net cash outflows	(32,431)	(3,813)
	2016 RMB'000	2015 RMB'000
Current assets	228,352	236,671
Non-current assets	1,201	1,788
Current liabilities	(8,131)	(12,472)
Net assets	221,421	225,987
Accumulated NCI	110,711	112,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

25. INTERESTS IN SUBSIDIARIES (Continued)

Shanghai Dazhong Financial Leasing

	2016 RMB'000	2015 RMB'000
Revenue	68,342	21,531
Profit for the year	43,377	15,495
Total comprehensive income for the year	43,377	15,495
Profit allocated to NCI	15,182	5,423
Dividend paid to NCI	-	-
Cash flows from operating activities	54,090	13,616
Cash flows from investing activities	(179,376)	(650,587)
Cash flows from financing activities	15,823	797,283
Net cash (outflows)/inflows	(109,463)	160,312
	2016 RMB'000	2015 RMB'000
Current assets	684,265	838,026
Non-current assets	619,305	346,511
Current liabilities	(295,215)	(427,109)
Non-current liabilities	(450,975)	(243,425)
Net assets	557,380	514,003
Accumulated NCI	195,083	179,901

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

26. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	4,461,515	4,041,892
Goodwill	222,971	40,318
	4,684,486	4,082,210

The amount due from an associate represented a loan of RMB60,335,000 to Shenzhen Capital Group Co., Ltd. The amount was unsecured and interest-bearing at 8% per annum. The amount was fully repaid during the year ended December 31, 2016.

(a) Details of the Group's associates as at December 31, 2016 are as follows:

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital (RMB)	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
大眾交通(集團)股份有限公司 ⁽¹⁾⁽³⁾ Dazhong Transportation (Group) Co., Ltd. ("Dazhong Transportation Group")	December 24, 1988 PRC/PRC	2,364,122,864	19.82	5.94	Public transportation
深圳市創新投資集團有限公司 ⁽¹⁾⁽²⁾ Shenzhen Capital Group Co., Ltd. ("Shenzhen Capital Group")	August 26, 1999 PRC/PRC	4,202,249,520	13.93	–	Investment holding and provision of financial consultation and assets management services
上海電科智能系統股份有限公司 ⁽¹⁾ Shanghai Dianke Intelligence System Inc. ("SEISYS")	December 12, 2007 PRC/PRC	100,000,000	28	–	Provision of products and services for smart transportation solution
上海杭信投資管理有限公司 ⁽¹⁾⁽²⁾ Shanghai Hangxin Investment Management Co., Ltd. ("Shanghai Hangxin")	April 22, 2004 PRC/PRC	255,600,000	16.13	–	Investment business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

26. INVESTMENTS IN ASSOCIATES (Continued)

(a) Details of the Group's associates as at December 31, 2016 are as follows: (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital (RMB)	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海興燁創業投資有限公司 ⁽¹⁾ Shanghai Xingye Venture Capital Co., Ltd. ("Xingye Venture Capital")	June 4, 2008 PRC/PRC	40,000,000	20	–	Investment business
上海徐匯昂立小額貸款股份 有限公司 ⁽¹⁾ Shanghai Xuhui Only Micro-credit Co., Ltd. ("Xuhui Only Micro-credit")	November 3, 2012 PRC/PRC	150,000,000	20	–	Micro-credit services
蘇創燃氣股份有限公司 ⁽²⁾⁽⁴⁾ Suchuang Gas Co., Ltd. ("Suchuang Gas")	July 4, 2013 Cayman Islands/PRC	50,000,000	–	19.76	Sale of gas, provision of gas transmission and gas pipelines construction and installation
邳州源泉水務運營有限公司 ⁽¹⁾⁽⁵⁾ Pizhou Fountainhead Water Operation Co., Ltd. ("Pizhou Fountainhead")	December 2, 2004 PRC/PRC	4,800,000	–	39.2	Wastewater treatment operations
徐州源泉污水處理有限公司 ⁽¹⁾⁽⁵⁾ Xuzhou Fountainhead Sewage Co., Ltd. ("Xuzhou Fountainhead")	December 19, 2007 PRC/PRC	5,800,000	–	39.2	Wastewater treatment operations

Notes:

- The English names of the associates registered in the PRC represents the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.
- During the year, the Group held, directly or indirectly through its subsidiaries, less than 20% of the voting rights of these entities. Nevertheless, the directors concluded that the Group has significant influence over these entities and these entities are therefore accounted for as associates using equity method. Please refer to note 5(a) for basis of conclusion.
- During the year, the Group acquired additional equity interests of 1.80% (2015: 0.36%) in Dazhong Transportation Group and pledged 72 million shares of Dazhong Transportation Group to secure of a short-term bank borrowing of US\$49,750,000 (note 37).
- During the year, the Group acquired equity interests of 19.76% (2015: nil) in Suchuang Gas through its subsidiary, Dazhong Hong Kong.
- These entities were originally subsidiaries of the Group. Subsequent to disposal on July 14, 2016 as detailed in note 9, they become associates of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

26. INVESTMENTS IN ASSOCIATES (Continued)

(b) Summarised financial information (material associates)

(i) Dazhong Transportation Group

	2016 RMB'000	2015 RMB'000
Revenue	3,226,318	2,399,147
Profit from continuing operations	620,237	561,567
Other comprehensive income	313,448	1,868,255
Total comprehensive income	933,685	2,429,822
Dividend received from the associate	37,621	33,259
Current assets	6,012,168	5,885,951
Non-current assets	9,925,854	8,816,073
Current liabilities	(5,084,022)	(4,598,056)
Non-current liabilities	(1,070,685)	(969,204)
Net assets	9,783,315	9,134,764
<i>Reconciliation to the Group's Interests in the associate:</i>		
Proportion of the Group's ownership	25.76%	23.96%
Group's share of net assets of the associate	2,387,668	2,053,590
Goodwill	99,938	40,318
Elimination of unrealised profit	(17,848)	(17,848)
Carrying amount of the associate	2,469,758	2,076,060
Fair value of the Group's investment based on quoted market price	3,778,752	4,966,236

(ii) Shenzhen Capital Group

	2016 RMB'000	2015 RMB'000
Revenue	588,297	465,833
Profit from continuing operations	1,345,285	1,012,491
Other comprehensive income	(1,755,590)	3,001,882
Total comprehensive income	(410,305)	4,014,373
Dividends received from the associate	58,544	58,544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

26. INVESTMENTS IN ASSOCIATES (Continued)

(b) Summarised financial information (material associates) (Continued)

(ii) Shenzhen Capital Group (Continued)

	2016 RMB'000	2015 RMB'000
Current assets	3,325,673	3,558,884
Non-current assets	18,176,015	16,648,576
Current liabilities	(7,029,337)	(3,936,089)
Non-current liabilities	(2,352,085)	(3,175,618)
Net assets	12,120,266	13,095,753
<i>Reconciliation to the Group's interests in the associate:</i>		
Proportion of the Group's ownership	13.93%	13.93%
Group's share of net assets of the associate	1,579,225	1,690,895
Carrying amount of the associate	1,579,225	1,690,895

(c) Summarised financial information (immaterial associates)

	2016 RMB'000	2015 RMB'000
Share of the associates' profit from continuing operations	179,203	13,653
Share of the associates' other comprehensive income	(112,813)	112,813
Share of the associates' total comprehensive income	66,390	126,466
<i>Carrying amount of individually immaterial associates in the consolidated statement of financial position</i>		
	512,470	315,255

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

27. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Non-current investments		
— Listed debt investments	18,104	16,910
— Listed equity investments	460,213	505,513
— Unlisted equity investments (note)	368,903	366,537
	847,220	888,960
Less: Allowance for impairment losses	(55,231)	(55,231)
	791,989	833,729
Current investments		
— Investment-linked deposits*	160,000	85,000

* These investment-linked deposits products were provided by the PRC banking institutions with guaranteed rates of return at fixed periods of terms within one year generally. The directors assessed that (i) the fair value of embedded derivative of these deposits was insignificant and accordingly such embedded derivative had not been separately recognised; and (ii) the costs of these deposits are approximated to their fair value, given that these deposits were with guaranteed rates of return and short maturities of within 3 months generally.

Note:

The unlisted equity instruments held by the Group are issued by private companies. As the reasonable range of fair value estimation is so significant that the directors are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period. The Group assessed, at the end of the year, whether there was any objective evidence that the unlisted equity investments were impaired. The steps taken by the directors in assessing whether such objective evidence existed mainly include (i) obtaining information about whether there were significant changes with an adverse effect that had taken place in the technological, market, economic or legal environment in which the investees operated, such as structural changes in the industries in which the investees operate, changes in the level of demand for the goods or services sold by investees resulting from product obsolescence, changes in the political or legal environments affecting the business of the investees; and (ii) whether there was any observable data that came to the attention of the Group about loss events such as changes in the investee's financial condition evidenced by changes in its liquidity, credit rating, profitability, cash flows, debt/equity ratio and level of dividend payment of the investees, that indicates that the cost of the investments might not be recovered. When objective evidence indicated any such individual asset was impaired, the amount of impairment loss was measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

27. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

In the opinion of the directors, non-current available-for-sale financial assets are not expected to be realised within one year from the end of reporting period.

During the year, the Group held, directly or indirectly through its subsidiaries, 20% or more of the voting rights of certain entities now accounted for as available-for-sale financial assets. Nevertheless, the directors concluded that the Group does not have significant influence over these entities and these entities are therefore accounted for as available-for-sale financial assets measured at cost less impairment. Please refer to note 5(a) for basis of conclusion.

28. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bills receivables		
— Trade receivables	351,652	331,652
— Bills receivables	4,150	17,081
	355,802	348,733
Less: Allowance for impairment losses	(19,862)	(19,259)
Current portion	335,940	329,474
Non-current: retention sum for construction contracts (note)	463,337	544,600
	799,277	874,074

The Group's trading terms with its customers are mainly on credit. The credit period is generally within 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Although the Group's trade receivables relate to a number of customers, there is concentration of credit risk. The trade receivables from the five largest debtors as at December 31, 2016 represented 26.46% (2015: 29.98%) of total trade receivables, while 11.53% (2015: 10.62%) of the total receivables were due from the largest debtor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

28. TRADE AND BILLS RECEIVABLES *(Continued)*

An aged analysis of the trade and bills receivables of the Group, excluding the retention receivables, as at the end of reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	327,088	321,377
1 to 2 years	6,929	5,927
2 to 3 years	2,962	3,407
3 to 4 years	2,336	2,354
4 to 5 years	1,764	1,591
Over 5 years	14,723	14,077
	355,802	348,733
Less: Allowance for impairment losses	(19,862)	(19,259)
	335,940	329,474

The aged analysis of the trade and bills receivables from third parties of the Group, excluding the retention receivables, which are not individually nor collectively considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	301,986	297,922
Within 1 year past due	22,189	20,412
1 to 2 years past due	6,582	5,630
2 to 3 years past due	2,666	3,066
3 to 4 years past due	1,635	1,648
4 to 5 years past due	882	796
	335,940	329,474

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

28. TRADE AND BILLS RECEIVABLES (Continued)

Note: The amounts include retention sum for construction contracts which represents retention receivables due from customers upon completion of the free maintenance period of the construction work, which normally last from 5 to 15 years. As at December 31, 2016 and 2015, retention receivables are neither past due nor impaired.

Receivables from third parties 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 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 Group does not hold any collateral or other credit enhancements over these balances.

The below table reconciles the impairment loss of trade receivables during the year:

	2016 RMB'000	2015 RMB'000
At beginning of the year	19,259	17,908
Impairment loss recognised	603	1,351
At end of the year	19,862	19,259

29. LEASE RECEIVABLES

As December 31, 2016, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery, solar equipment and hotel equipment financial leasing arrangements, is as follows:

	Motor vehicles RMB'000	Machinery RMB'000	Solar equipment RMB'000	Hotel equipment RMB'000	Total RMB'000
Lease receivables	67,383	540,468	407,005	107,026	1,121,882
Less: Unearned finance income	(6,380)	(79,560)	(34,223)	(10,787)	(130,950)
At December 31	61,003	460,908	372,782	96,239	990,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

29. LEASE RECEIVABLES *(Continued)*

An aged analysis of lease receivables as at December 31, 2016, determined based on the age of the receivables since the effective dates of the relevant lease contracts, is as follows:

	Lease receivables RMB'000	Unearned finance income RMB'000	Net lease receivables RMB'000
Within 1 year	446,665	(70,980)	375,685
1 to 2 years	399,750	(37,452)	362,298
2 to 3 years	167,359	(14,581)	152,778
3 to 4 years	60,757	(6,251)	54,506
4 to 5 years	47,351	(1,686)	45,665
	1,121,882	(130,950)	990,932
Less: Non-current portion	(675,217)	59,970	(615,247)
Current portion	446,665	(70,980)	375,685

As December 31, 2015, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery and solar equipment financial leasing arrangements, is as follows:

	Motor vehicles RMB'000	Machinery RMB'000	Solar equipment RMB'000	Total RMB'000
Lease receivables	50,152	7,434	790,658	848,244
Less: Unearned finance income	(6,436)	(1,409)	(87,470)	(95,315)
At December 31	43,716	6,025	703,188	752,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

29. LEASE RECEIVABLES (Continued)

An aged analysis of lease receivables as at December 31, 2015, determined based on the age of the receivables since the effective dates of the relevant lease contracts, is as follows:

	Lease receivables RMB'000	Unearned finance income RMB'000	Net lease receivables RMB'000
Within 1 year	474,028	(61,243)	412,785
1 to 2 years	217,808	(25,471)	192,337
2 to 3 years	145,414	(7,735)	137,679
3 to 4 years	6,257	(678)	5,579
4 to 5 years	4,737	(188)	4,549
	848,244	(95,315)	752,929
Less: Non-current portion	(374,216)	34,072	(340,144)
Current portion	474,028	(61,243)	412,785

Lease receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB1,561,460,000 (2015: RMB856,460,000).

30. AMOUNT DUE FROM GRANTOR

A profile of the amount due from grantor as at the end of the reporting period, based on the due date, is as follows:

	2016 RMB'000	2015 RMB'000
Due within 1 year	34,847	33,090
Non-current portion	618,369	653,216
	653,216	686,306

The credit quality of amount due from grantor that is neither past due nor impaired has been assessed by reference to historical information about counterparty default rate. The existing counterparty did not have default in the past.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

30. AMOUNT DUE FROM GRANTOR *(Continued)*

The Group recognised financial asset — amount due from grantor in respect of its public infrastructure projects arising from a BOT arrangement. The significant aspects of the service concession arrangement are summarised as follows:

- (a) The Group entered into a service concession arrangement with the local government authority (i.e., grantor) for the Xianyin Road Tunnel construction and operation of which is located in Shanghai, the PRC for a concession period of 25 years. Pursuant to the service concession arrangement, the Group has to design, construct and operate the Xianyin Road Tunnel, and has the obligation to maintain the Xianyin Road Tunnel in good condition. The Group will be paid for its services over the service concession period at prices stipulated through a pricing mechanism. Upon expiry of the concession period, the Xianyin Road Tunnel and the related facilities will be transferred to the grantor at nil consideration.

The service concession arrangement does not contain any renewal options. The standard rights of the grantor to terminate include failure of the Group to construct and operate the Xianyin Road Tunnel and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the arrangement include failure to receive payments for road and tunnel service from the grantor and in the event of a material breach of the terms of the agreement.

- (b) The public infrastructure projects with financial receivables amounting to RMB653,216,000 (2015: RMB686,306,000) at the end of the reporting period are pledged to secure the loans taken up by the Group (note 37).

Amount due from grantor is in respect of revenue from construction services under BOT arrangement and bears interest at a rate of 5.4% (2015: 5.4%) per annum. The amount was not yet due for payment at the end of each of the year and will be settled by revenue to be generated during the operating periods of the BOT arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

31. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Impairment of assets RMB'000	Provision RMB'000	Fair value changes of available- for-sale financial assets RMB'000	Others RMB'000	Total RMB'000
At January 1, 2015	307	3,589	(86,502)	(14,613)	(97,219)
Credited/(charged) to profit or loss	92	582	(1)	8,496	9,169
(Charged)/credited to other comprehensive income	–	–	(12,631)	39	(12,592)
At December 31, 2015 and January 1, 2016	399	4,171	(99,134)	(6,078)	(100,642)
Credited/(charged) to profit or loss	237	(47)	(3)	(1,251)	(1,064)
Credited to other comprehensive income	–	–	21,794	1,182	22,976
At December 31, 2016	636	4,124	(77,343)	(6,147)	(78,730)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	20,495	19,618
Deferred tax liabilities	(99,225)	(120,260)
	(78,730)	(100,642)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

31. DEFERRED TAX ASSETS/(LIABILITIES) *(Continued)*

Deferred tax assets have not been recognised for the following:

	2016 RMB'000	2015 RMB'000
Deductible temporary differences	242,310	244,686
Unused tax losses	308,122	144,467
	550,432	389,153

No deferred tax asset is recognised in relation to such tax losses and other deductible temporary differences due to the unpredictability of future profit streams.

Tax losses unrecognised as deferred tax assets that will expire in:

	2016 RMB'000	2015 RMB'000
2016	–	4,078
2017	7,107	7,332
2018	79,740	90,774
2019	13,340	34,129
2020	8,323	8,154
2021	199,612	–
	308,122	144,467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

32. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	14,681	10,298
Work-in-progress	579	178
Finished goods	12,649	11,867
	27,909	22,343

33. LOAN RECEIVABLES

	2016 RMB'000	2015 RMB'000
Loan receivables	232,800	208,200
Less: Allowance for impairment losses	(7,915)	(7,389)
Current portion	224,885	200,811

The Group's loan receivables, which arise from the micro-credit business of providing loans in the PRC, are denominated in RMB.

Loan receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the end of reporting period is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB338,537,000 (2015: RMB316,333,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

33. LOAN RECEIVABLES *(Continued)*

An aging analysis of loan receivables (that are not considered to be impaired) as at the end of the reporting period, based on the payment due date, is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	122,364	155,925
Less than 1 year past due	57,635	44,886
Over 1 year past due	44,886	–
	224,885	200,811

A maturity profile of the loan receivables before allowances for impairment losses as at the end of the reporting period, based on the maturity date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	149,100	148,700
1 to 2 years	33,000	59,500
2 to 3 years	50,700	–
	232,800	208,200

The credit quality of loan receivables that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates. The existing counterparties did not have defaults in the past.

The below table reconciles the impairment loss of loan receivables during the year:

	2016 RMB'000	2015 RMB'000
At beginning of the year	7,389	2,572
Impairment loss recognised	526	4,817
At end of the year	7,915	7,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

34. PREPAYMENTS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	9,635	9,371
Other receivables	73,018	174,804
Interest receivables	26	469
Dividend receivables	876	17,442
	83,555	202,086
Less: Allowance for impairment losses	(6,328)	(23,153)
	77,227	178,933

The below table reconciles the impairment loss of prepayments and other receivables during the year:

	2016 RMB'000	2015 RMB'000
At beginning of the year	23,153	21,232
Impairment loss recognised	–	1,921
Reversal of impairment loss previously recognised	(484)	–
Written-off	(16,341)	–
At end of the year	6,328	23,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Listed equity investments	72,541	104,871
Listed debt investments	1,562	1,462
	74,103	106,333

36. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	3,417,733	1,553,052
Less: Pledged short-term deposits	(159,000)	(3,397)
Cash and cash equivalents	3,258,733	1,549,655

Cash and banks balances earn interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

As at December 31, 2016, the pledged deposits RMB158,000,000 represent deposits pledged to bank for secure bank loan of outstanding amount USD49,750,000 (note 37) and RMB1,000,000 represent deposits pledged to banks for the Group's investing operation. As at December 31, 2015, pledged deposits represent deposits pledged to banks to secure bank bills facilities granted to the Group.

RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

37. BORROWINGS

	2016 RMB'000	2015 RMB'000
Current portion		
Secured bank loans	537,296	135,710
Unsecured bank loans	1,407,375	1,361,999
	1,944,671	1,497,709
Non-current portion		
Secured bank loans	14,550	185,000
Unsecured bank loans	363,605	253,710
	378,155	438,710
Total borrowings	2,322,826	1,936,419
Bank loans interest at rate per annum in the range of	0.93% to 5.00%	0.90% to 5.84%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

37. BORROWINGS (Continued)

At December 31, total current and non-current bank borrowings were scheduled to repay as follows:

	2016 RMB'000	2015 RMB'000
On demand or within one year	1,944,671	1,497,709
More than one year, but not exceeding two years	145,043	216,981
More than two years, but not exceeding five years	233,112	221,729
	2,322,826	1,936,419

The carrying amounts of the Group's current interest-bearing bank loans approximate to their fair values.

The Group's interest-bearing bank loans are secured by the pledges of the following assets with carrying values at the end of the year as follows:

	Notes	2016 RMB'000	2015 RMB'000
Pledge of assets:			
Available-for-sale financial assets	(i)	18,104	16,910
Financial assets at fair value through profit or loss	(i)	74,066	106,291
Trade receivables	(ii)	–	496,970
Amount due from grantor	(iii)	653,216	686,306
Investments in associates	(i) & (iv)	590,073	–
Pledged deposits	(iv)	158,000	3,397

Notes:

- (i) Bank loans amounting to RMB21,730,000 (2015: RMB31,710,000) were secured by the equity and debt investments included in investments in associates, available-for-sale financial assets and financial assets at fair value through profit or loss in note 26, note 27 and note 35 respectively.
- (ii) No bank loans were secured by the retention sum for construction contracts included in trade receivables in note 28 (2015: RMB50,000,000).
- (iii) Bank loans amounting to RMB185,000,000 (2015: RMB239,000,000) were secured by the amount due from grantor in note 30.
- (iv) A bank loan amounting USD49,750,000 (2015: nil) was secured by 72 million shares of Dazhong Transportation Group in note 26 and pledged deposits in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

37. BORROWINGS (Continued)

At December 31, 2016, the Company has issued guarantees to banks to secured banking facilities granted to certain subsidiaries to the extent of RMB2,500,000,000 (2015: RMB2,500,000,000). The aforesaid bank loans outstanding as at December 31, 2016 were RMB1,002,699,000 (2015: RMB681,754,000).

Most of the Group's bank borrowings agreements provide that without the lending banks' prior written consent, the Group cannot conduct reorganisations, mergers, consolidations, changes of major equity holders, changes of business model, transfer or sale of major assets, investments, guarantees, substantial increases of debt or other actions that may affect the Group's ability to repay the loans.

Included in unsecured loans were loan from a fellow subsidiary of Shanghai Gas Group, one of the shareholders of the Company, amounting to RMB300,000,000 (2015: RMB300,000,000). These balances were unsecured, interest bearing at interest rate of 3.92% (2015: 3.92%–5.04%) per annum respectively and repayable within one year.

The Group has aggregated banking facilities of RMB6,846,782,000 (2015: RMB6,177,460,000) acquired from the bankers, of which RMB2,322,826,000 (2015: RMB1,936,419,000) were utilised and RMB4,523,956,000 (2015: RMB4,241,041,000) were unutilised as at December 31, 2016

38. CORPORATE BONDS AND SHORT-TERM BONDS PAYABLE

Corporate bonds

As approved by the China Securities Regulatory Commission document [2011] No. 2079, the Company issued domestic corporate bonds with an aggregate principal amount of RMB1.6 billion on January 6, 2012. The bonds mature in six years and bear interest at a benchmark interest rate (based on the National Interbank Funding Centre released interest rate) plus an interest margin of 2.95% per annum.

The corporate bonds are stated at amortised cost. Interest is payable once every six months.

The corporate bonds recognised in the consolidated statement of financial position are calculated as follows:

	2016 RMB'000	2015 RMB'000
At beginning of the year	1,590,465	1,586,208
Add: Interest expenses	94,425	110,135
Less: Interest paid	(89,838)	(105,878)
At end of the year	1,595,052	1,590,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

38. CORPORATE BONDS AND SHORT-TERM BONDS PAYABLE *(Continued)***Short-term bonds**

As approved by the National Association of Financial Market Institutional Investors [2016] No. SCP251, the Company issued short-term bonds with an aggregate principal amount of RMB300 million on September 23, 2016. The bonds mature in 270 days and bear interest at a benchmark interest rate (based on the National Interbank Funding Center released interest rate) plus an interest margin of 2.90% per annum.

The short-term bonds are stated at amortised cost. Interest is payable at due day.

The short-term bonds recognised in the consolidated statement of financial position are calculated as follows:

	2016 RMB'000	2015 RMB'000
At beginning of the year	–	–
Add: Issued during the year	300,000	–
Add: Interest expense	2,417	–
At end of the year	302,417	–

39. TRADE PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables		
— Shanghai Gas Group	738,468	814,254
— Third parties	551,061	297,201
	1,289,529	1,111,455

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	1,275,151	1,101,783
1 to 2 years	7,432	971
2 to 3 years	244	2,022
Over 3 years	6,702	6,679
	1,289,529	1,111,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

40. OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Current portion		
Deposits received, other payables and accruals	758,815	539,063
Amount due to Shanghai Gas Group	20,091	20,791
Receipt in advance	133,017	114,644
Salary payables	81,697	57,006
Interest payables	2,563	1,979
Dividend payables	911	911
Deferred government grants	272	272
	997,366	734,666
Non-current portion		
Amount due to Shanghai Gas Group	37,310	37,310
Finance lease deposit received	130,685	56,785
Deferred government grants	107,578	11,900
	275,573	105,995
	1,272,939	840,661

Other payables are non-interest-bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

41. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
At beginning of the year	1,281,482	1,194,979
Additions	264,101	293,846
Released to profit or loss (note 7)	(218,112)	(207,343)
At end of the year	1,327,471	1,281,482
Analysed into:		
Current	210,633	203,076
Non-current	1,116,838	1,078,406
At end of the year	1,327,471	1,281,482

Deferred income represents the fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network. These fees are received upfront and revenue is recognised over ten years.

As at December 31, 2016, the deferred income included an amount of RMB139,434,000 (2015: RMB139,434,000) which was related to the balance of fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network at the time when the 50% equity interests of Shanghai Dazhong Gas was transferred from Shanghai Municipal Assets Management Company to the Company pursuant to a share transfer agreement in 2001. This balance remained unsettled as there was a dispute as to the ownership of such balance and the related interest income of RMB8,944,000 (2015: RMB8,944,000) which was accounted for as "other payables".

42. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2016 RMB'000	2015 RMB'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits less recognised losses	289,334	256,272
Progress billings	(807,145)	(692,885)
	(517,811)	(436,613)
Represented by:		
Due to customers included in current liabilities	(517,811)	(436,613)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

43. EMPLOYEE DEFINED BENEFITS

One of the subsidiaries of the Company pays supplementary pension subsidies and other post-employment obligations to its retired employees in the PRC. In addition, the Group was committed to make periodic benefits payments to certain former employees who were terminated or early retired in accordance with various employee benefit scheme adopted by the Group.

The plan exposes the Group to actuarial risks such as interest rate risk, benefit risk and staff turnover rate risk.

Interest risk The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability.

Benefit risk The present value of the defined benefit plan obligation is calculated by reference to the future benefits of plan participants. As such, an increase in the benefits of the plan participants will increase the plan liability.

Staff turnover rate risk The present value of the defined benefit plan obligation is calculated by reference to the future staff turnover rate of plan participants. As such, an increase in the average staff turnover of the plan participants will increase the plan liability.

The most recent actuarial valuations of the present value of the defined benefit obligations as at December 31, 2016 was carried out by an independent firm of actuaries, Towers Watson, which is a global advisory, broking and solutions company. The present value of the defined benefit obligations, and the related current service cost and past cost were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2016	2015
Discount rate	3.50%	3.00%
Early-retiree's salary and supplemental benefit inflation rate	8.00%	8.00%
Resignation staff turnover rates	0.00%	0.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

43. EMPLOYEE DEFINED BENEFITS *(Continued)*

Amounts recognised in profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

	2016 RMB'000	2015 RMB'000
Cost		
Service cost		
Current service cost	577	491
Interest cost	1,226	1,367
Components of defined benefit costs recognised in profit or loss	1,803	1,858
Re-measurement on the net defined benefit obligations:		
Actuarial (gain)/losses arising from experience adjustments	(558)	4,802
Components of defined benefit costs recognised in other comprehensive income	(558)	4,802
Total	1,245	6,660

The expense for the year is included in the employee benefits expense in profit or loss. The re-measurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	2016 RMB'000	2015 RMB'000
Present value of unfunded defined benefit obligations	41,217	42,017
Net liability arising from defined benefit obligations	41,217	42,017
Less: Amount due within one year	(2,130)	(2,198)
Amount due after one year	39,087	39,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

43. EMPLOYEE DEFINED BENEFITS (Continued)

Movements in the present value of the retirement and supplemental benefit obligations in the year were as follows:

	2016 RMB'000	2015 RMB'000
At beginning of the year	42,017	37,541
Current service cost	577	491
Interest cost	1,226	1,367
Re-measurement (gains)/losses:		
Actuarial (gain)/losses arising from experience adjustments	(558)	4,802
Benefits paid	(2,045)	(2,184)
At end of the year	41,217	42,017

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, benefit rate and staff turnover rate. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on benefit obligation increases (decreases) by 1%, the defined benefit obligation would decrease by RMB4,826,000 (2015: RMB4,772,000) (increase by RMB6,035,000 (2015: RMB5,950,000)) for the year ended December 31, 2016.
- If the benefit rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB108,000 (2015: RMB200,000) (decrease by RMB151,000 (2015: RMB189,000)) for the year ended December 31, 2016.
- If the staff turnover rate increases by 1%, the defined benefit obligation would increase by RMB966,000 (2015: RMB1,063,000) for the year ended December 31, 2016.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the represented value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligations liability recognised in the consolidated statement of financial position.

There was no change in the method and assumptions used in preparing the sensitivity analysis from prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

43. EMPLOYEE DEFINED BENEFITS *(Continued)*

The average duration of the defined benefit obligation as at December 31, 2016 is 30 (2015: 30) years. This number can be analysed as follows:

	2016	2015
Civil retirees	5.1 years	4.7 years
Retired members	22.3 years	20.0 years
Current staff	42.7 years	39.3 years

44. PROVISION FOR RESTORATION

	2016 RMB'000	2015 RMB'000
At beginning of the year	19,486	17,152
Add: Provision	6,093	2,334
Less: Disposal of subsidiaries	(5,379)	–
Less: Written back	(905)	–
At end of the year	19,295	19,486

The provision for restoration costs represented directors' estimated assets retirement obligations relating to the wastewater treatment operation and public infrastructure projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

45. SHARE CAPITAL

	Number of A shares	Number of H shares	Total Number of ordinary shares	Authorised shares RMB'000	Issued and paid shares RMB'000
As January 1, 2015	1,644,869,783	–	1,644,869,783	1,644,870	1,644,870
Issue of bonus shares of every 10 shares for 5 bonus shares (note i)	822,434,892	–	822,434,892	822,435	822,435
As December 31, 2015 and January 1, 2016	2,467,304,675	–	2,467,304,675	2,467,305	2,467,305
Issue of H shares at RMB1 per share (note ii)	–	435,400,000	435,400,000	435,400	435,400
Transfers of A shares to H shares (note ii)	(43,540,000)	43,540,000	–	–	–
At December 31, 2016	2,423,764,675	478,940,000	2,902,704,675	2,902,705	2,902,705

Notes:

- (i) Pursuant to the special resolution passed at the annual general meeting of the Company on May 12, 2015, issue of bonus shares to all the shareholders of the Company on the basis of five new shares (the "Bonus Shares") for every then existing ten shares of the Company held by the member on the register of members of the Company was approved on May 26, 2015 (the "Bonus Issue"). The Bonus Shares rank pari passu in all respects with the existing shares of the Company. Accordingly, a total number of 822,434,892 Bonus Shares were issued on May 27, 2015.
- (ii) On December 5, 2016, the Company successfully listed on the Main Board of SEHK and issued 435,400,000 new shares of H shares at offering price of HKD3.60 per H share and in the meantime, converted 43,540,000 A shares to 43,540,000 H shares. As at result, the Company has increased an aggregated 478,940,000 H shares and decreased 43,540,000 A shares immediately after the completion of the transaction. As at December 31, 2016, the Company had 478,940,000 H shares and 2,423,764,675 A shares respectively. The H shares rank pari passu in all respects with the existing A shares including the rights to receive all dividends and distribution declared and made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

46. RESERVES

Company level

	Capital reserve (note (a)) RMB'000	Statutory reserve (note (b)) RMB'000	Investment revaluation reserve (note (d)) RMB'000	Other reserve (note (e)) RMB'000	Retained earnings (note (f)) RMB'000	Reserve total RMB'000
At January 1, 2015	65,517	392,827	259,505	633,530	945,560	2,296,939
Profit for the year	–	–	–	–	354,017	354,017
Other comprehensive income for the year:						
Share of other comprehensive income of associates	–	–	–	881,667	–	881,667
Change in fair value of available for sale financial assets	–	–	(16,683)	–	–	(16,683)
Total comprehensive income for the year	–	–	(16,683)	881,667	354,017	1,219,001
Issue of bonus shares (note 45(i))	–	–	–	–	(822,435)	(822,435)
2014 final dividend paid	–	–	–	–	(57,422)	(57,422)
Appropriation to statutory reserve	–	35,135	–	–	(35,135)	–
Others	–	–	–	4,332	–	4,332
At December 31, 2015 and January 1, 2016	65,517	427,962	242,822	1,519,529	384,585	2,640,415
Profit for the year	–	–	–	–	342,759	342,759
Other comprehensive income for the year:						
Share of other comprehensive income of associates	–	–	–	(286,409)	–	(286,409)
Change in fair value of available for sale financial assets	–	–	(82,440)	–	–	(82,440)
Total comprehensive income for the year	–	–	(82,440)	(286,409)	342,759	(26,090)
Issue of ordinary H shares (note 45(ii))	882,191	–	–	–	–	882,191
2015 final dividend paid (note 18)	–	–	–	–	(148,038)	(148,038)
Appropriation to statutory reserve	–	34,276	–	–	(34,276)	–
Others	(2,863)	–	–	–	–	(2,863)
At December 31, 2016	944,845	462,238	160,382	1,233,120	545,030	3,345,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

46. RESERVES (Continued)

Notes:

- (a) Capital reserve:
The amount represents capital contribution in excess of nominal value of share capital.
- (b) Statutory reserve:
The amount represents the legal requirement for certain level of operating funds set aside from retained earnings for operating use.
- (c) Exchange reserve:
The amount represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.
- (d) Investment revaluation reserve:
The amount represents cumulative net gains and losses recognised from revaluation of available-for-sale financial assets.
- (e) Other reserve:
The amount represents net amount from share of other comprehensive income of associates.
- (f) Retained earnings:
Cumulative net gains and losses recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	As at December 31	
		2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		20,506	571
Investment properties		42,360	43,712
Intangible assets		213	286
Investments in subsidiaries	25	2,973,115	2,505,268
Investments in associates		3,631,283	3,687,285
Available-for-sale financial assets		326,694	382,285
Trade receivables		–	47,630
Total non-current assets		6,994,171	6,667,037
Current assets			
Trade receivables		15,877	–
Prepayments and other receivables		12,549	111,793
Amount due from an associate		–	60,335
Amounts due from subsidiaries		593,673	638,494
Financial assets at fair value through profit or loss		36	42
Cash and cash equivalents		2,112,019	372,617
Total current assets		2,734,154	1,183,281
Current liabilities			
Borrowings		799,300	668,900
Short-term bonds payable		302,417	–
Other payables		294,458	42,208
Amounts due to subsidiaries		434,151	358,917
Total current liabilities		1,830,326	1,070,025
Net current assets		903,828	113,256
Total assets less current liabilities		7,897,999	6,780,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Note	As at December 31	
		2016 RMB'000	2015 RMB'000
Non-current liabilities			
Corporate bonds payable		1,595,052	1,590,465
Deferred tax liabilities		54,627	82,108
Total non-current liabilities		1,649,679	1,672,573
Net assets			
Equity			
Share capital	45	2,902,705	2,467,305
Reserves	46	3,345,615	2,640,415
Total equity		6,248,320	5,107,720

On behalf of the directors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

48. COMMITMENTS

(a) Operating lease commitments

Operating leases — lessee

Except for the prepaid premium for land leases, the Group leases certain of its land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 1 to 15 years.

The total future minimum lease payments under non-cancellable operating leases, which the Group is a lessee are as follows:

	2016 RMB'000	2015 RMB'000
Within one year	694	4,801
In the second to fifth year	2,980	2,909
After the fifth year	5,899	6,664
	9,573	14,374

Operating leases — lessor

As the end of each reporting date, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of the investment properties and equipment are as follows:

	2016 RMB'000	2015 RMB'000
Within one year	5,662	5,500
In the second to fifth year	16,563	12,750
After the fifth year	18,302	25,244
	40,527	43,494

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

48. COMMITMENTS (Continued)

(b) Capital commitments

Capital commitments not provided for in the consolidate financial statements were as follows:

	Notes	2016 RMB'000	2015 RMB'000
In respect of:			
Share transfer agreement	(i)	51,678	99,795
Capital injection in subsidiary	(ii)	–	221,366
Capital injection in subsidiary	(iii)	10,000	–

Notes:

- (i) A subsidiary of the Group, namely Shanghai Dazhong Group Capital Equity Investment Co., Ltd. ("the Buyer"), engaged in a share transfer agreement with 上海東方傳媒集團有限公司 ("the Seller") on April 29, 2010 to acquire the partial of the shares held by the Seller of 華人文化產業服權投資(上海)中心有限合伙 at the consideration price of RMB250,000,000. According to the condition of the mutual agreement, the full amount should be paid upon the completion of the registration of the transfer of shares. As at December 31, 2016 and 2015, the Group in aggregate has paid RMB198,322,000 by nine instalments and all shareholders have paid according to the equity interest proportion. The remaining balance of RMB51,678,000 will be paid together with other shareholders in accordance with equity interest proportion for further investment needs.
- (ii) In August 8, 2014, the Company set up a new company in Shanghai namely Shanghai Dazhong Assets Management Co., Ltd. with registered capital of RMB500,000,000. As at December 31, 2015, the Company has paid RMB278,634,000 and the remaining amount was fully settled in 2016.
- (iii) On July 12, 2016, the Company set up a new company in Shanghai namely Shanghai Zhonggong Information Service Co., Ltd. with registered capital of RMB10,000,000. As at December 31, 2016, there was no paid-capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

49. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with its related parties as follows:

	2016 RMB'000	2015 RMB'000
<i>Shanghai Dazhong Business Management Co., Ltd.</i>		
Acquisition of equity interests of non-controlling interests (note 25)	3,053	–
<i>Shanghai Gas Group</i>		
Purchase of piped gas (excluded VAT)	2,366,954	2,462,266
Rental expenses	4,724	5,660
Gas hotline service expenses	–	4,000
<i>Associates</i>		
Interest income (excluded VAT)	4,119	4,827
Rental expenses	4,437	4,536
Disposal of available-for-sale financial assets	40,949	–
Acquisition of a subsidiary (note 10)	98,114	–
<i>Shanghai Gas Group's affiliate</i>		
Interest expense	11,398	14,336

The above transactions were conducted in the normal course of the Group's business and were determined based on mutually agreed prices and terms with reference to the market price at the time of the transaction.

Key management remuneration

The Group considered the executive directors and 2 senior managements as key management (2015: the executive directors, 1 supervisor and 3 senior managements).

	2016 RMB'000	2015 RMB'000
Basic salaries and other benefits	18,254	14,724
Pension scheme contributions	1,460	1,250
Total compensation paid to key management personnel	19,714	15,974

The emoluments paid or payable to 2 (2015: 3) senior managements were within the following bands:

	2016 No. of individuals	2015 No. of individuals
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

49. RELATED PARTY TRANSACTIONS (Continued)

As the end of each reporting date, apart from the disclosures already made in investments in associates, borrowings, trade and other payables in notes 26, 37, 39 and 40 respectively, the balances with its related parties are listed as follows:

		2016 RMB'000	2015 RMB'000
<i>Prepayment</i>			
Dazhong Building	(iii)	145	–
<i>Dividend receivable</i>			
Shanghai Xuhui Onlly Micro-credit	(vii)	876	–
<i>Other receivables</i>			
Shanghai Gas Group	(i)	–	2,798
Shenzhen Capital Group	(ii)	–	469
Shanghai Gas City North Sale Co., Ltd	(v)	6,372	–
Xuzhou Fountainhead	(vi)	12,074	–
Shanghai Xuhui Onlly Micro-credit	(vii)	345	–
Pizhou Fountainhead	(iv)	143	–
<i>Other payables</i>			
Dazhong Building	(iii)	–	307
Pizhou Fountainhead	(iv)	5,491	–

- (i) Shanghai Gas Group is another major shareholder of the Company and also a shareholder of Shanghai Dazhong Gas.
- (ii) Shenzhen Capital Group is an associate of the Group.
- (iii) Shanghai Dazhong Building Co., Ltd. ("Dazhong Building") is a subsidiary of an associate of the Group, namely Dazhong Transportation Group.
- (iv) Pizhou Fountainhead is an associate of the Group.
- (v) Shanghai Gas City North Sale Co., Ltd. is an affiliate of Shanghai Gas Group.
- (vi) Xuzhou Fountainhead is an associate of the Group.
- (vii) Shanghai Xuhui Onlly Micro-credit is an associate of the Group.

Financial guarantee

Guarantees given by the Company to certain associates in connection with bank loans granted to them as at 31 December 2016 amounted to RMB14,861,000 (2015: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

50. FINANCIAL INSTRUMENTS BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	2016 RMB'000	2015 RMB'000
<i>Financial assets</i>		
Financial assets at fair value through profit or loss – held for trading		
— Listed investments	74,103	106,333
Loans and receivables		
— Due from an associate	–	60,335
— Trade and bills receivables	799,277	874,074
— Lease receivables	990,932	752,929
— Amount due from grantor	653,216	686,306
— Loan receivables	224,885	200,811
— Other receivables	67,592	169,562
— Pledged deposits	159,000	3,397
— Cash and cash equivalents	3,258,733	1,549,655
Available-for-sale financial assets		
— Listed investments	478,317	522,423
— Unlisted investments	313,672	311,306
— Investment-linked deposits	160,000	85,000
<i>Financial liabilities</i>		
Financial liabilities measured at amortised cost		
— Borrowings	2,322,826	1,936,419
— Trade payables	1,289,529	1,111,455
— Other payables	1,032,072	713,845
— Corporate bonds and short-term bonds payable	1,897,469	1,590,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

51. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables, other payables and corporate bonds and short-term bonds payable.

In the opinion of the directors, the carrying value of amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables and corporate bonds and short-term bonds payable approximate to fair value.

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

(c) Fair value and fair value hierarchy of financial instruments of the Group

	Fair value measurement using Quoted prices in active markets (Level 1)	
	2016	2015
	RMB'000	RMB'000
Available-for-sale listed investments	478,317	522,423
Equity and debt investments at fair value through profit or loss	74,103	106,333

52. FINANCIAL RISK

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business.

The Group's principal financial instruments mainly include trade and bills receivables, pledged deposits, cash and cash equivalents and trade and bills payables, which arise directly from its operations. The Group has other financial assets and liabilities such as amounts due from/to associates, interest-bearing bank borrowings, deposits and other receivables, and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

52. FINANCIAL RISK (Continued)

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board reviews and agrees policies for managing each of the risks which are summarised below:

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank loan and other borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk. With all other variable held constant, the Group's profit after tax and equity is affected through the impact on floating rate borrowings, as follows:

	Increase/(decrease) on profit after tax and equity	
	2016 RMB'000	2015 RMB'000
Increase by 25 basis points	6,506	5,696
Decrease by 25 basis points	(6,506)	(5,696)

Foreign currency risk

The Group's businesses are located in PRC and the majority of transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of each of the year to a reasonably possible change in the RMB/USD and RMB/HKD exchange rates, with all other variables held constant, of the Group's profit after tax and equity.

	Increase/(decrease) on profit after tax and equity	
	2016 RMB'000	2015 RMB'000
RMB/USD		
Strengthened 5%	8,093	(7,696)
Weakened 5%	(8,093)	7,696
RMB/HKD		
Strengthened 5%	(76,894)	(2,976)
Weakened 5%	76,894	2,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

52. FINANCIAL RISK (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis; therefore, the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, the composition of which is disclosed in note 27, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk exist when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at December 31, 2016, based on the contractual undiscounted payments, was as follows:

	On demand RMB'000	Within 1 year RMB'000	Within 2 to 5 years RMB'000	Total RMB'000
At December 31, 2016				
Interest-bearing bank borrowings	–	1,976,745	417,355	2,394,100
Short-term bonds payable	–	306,525	–	306,525
Trade and bills payables	–	1,289,529	–	1,289,529
Other payables	864,077	–	167,995	1,032,072
Corporate bonds payable	–	89,394	1,596,524	1,685,918
	864,077	3,662,193	2,181,874	6,708,144
At December 31, 2015				
Interest-bearing bank borrowings	–	1,421,652	610,758	2,032,410
Trade and bills payables	–	1,111,455	–	1,111,455
Other payables	619,750	–	94,095	713,845
Corporate bonds payable	–	90,552	1,682,074	1,772,626
	619,750	2,623,659	2,386,927	5,630,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

53. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. 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 year.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by capital. The Group's net debt consists of interest-bearing bank loans and other borrowings and related party loans, less cash and cash equivalents. Capital represents total equity.

54. LITIGATION

In 2009, Shanghai Dazhong Gas, one of the Company's subsidiaries, announced its intention to sell its 49% equity interests in Nanchang Gas Co., Ltd. ("Nanchang Gas"). On December 8, 2009, a sales and purchase agreement was signed with China Resources Gas (Group) Co., Ltd. ("China Resources Gas") (華潤燃氣(集團)有限公司) to sell the 49% equity interests in Nanchang Gas to China Resources Gas for a consideration of RMB698,000,000. The changes in registration was completed on March 24, 2011 and on June 29, 2011, Shanghai Dazhong Gas has received HKD792,980,000 consideration price from China Resources Gas.

Upon completion of the transfer, Shanghai Dazhong Gas requested China Resources Gas Limited to compensate its loss in exchange difference and on share of profit from Shanghai Dazhong Gas due to the delay in actual payment in Hong Kong dollar and delay on the completion of changes in registration. On April 28, 2013, the Shanghai Arbitration Commission concluded that China Resources Gas needed to pay HKD77,745,100 (equivalent to RMB61,372,000) to Shanghai Dazhong Gas as compensation. This compensation income was included in other revenue of Shanghai Dazhong Gas for the year ended December 31, 2013.

On November 5, 2013, China Resources Gas applied to the Shanghai Court for a compensation claim due to the delay of transfer of shares and the operation license. On July 1, 2015, both parties agreed to resolve the issue by settlement and signed a settlement agreement. Shanghai Dazhong Gas agreed to pay RMB80,000,000 to China Resources Gas to settle the dispute. The amount was settled on July 1, 2015. This compensation loss was included in administrative expenses for year ended December 31, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

55. SUBSEQUENT EVENTS

- (i) On January 9, 2017, the over-allotment option was approved by the Listing Committee of the SEHK and 49,730,000 H shares were issued by the Company pursuant to the partial exercise of the over-allotment option and 4,973,000 H shares were converted from the Company's A shares transferred to National Social Security Fund ("NSSF") in accordance with the relevant PRC regulations regarding reduction of state-owned shares upon the exercise of the partial over-allotment option. As a result, the number of H shares was increased by 54,703,000 shares to 533,643,000 H shares upon completion of the exercising the over-allotment option.

On the other hand, in accordance with relevant PRC regulations regarding the transfers of state-owned shares and a letter issued by NSSF (She Bao Ji Jin Fa [2016] No. 68) on May 13, 2016 in this regard, proceeds from the conversion of A shares held by the selling shareholders to H shares upon the partial exercise of the over-allotment option, and sale of such H shares by the selling shareholders, being 4,973,000 H shares (including 4,841,412 H shares from Shanghai Gas Group and 131,588 H shares from Wuxi Coach Co., Ltd. will be remitted to an account designated by NSSF after deducting levy and trading fee. As a result, 4,973,000 A shares were cancelled in the register of members of A shares. The Company has 2,418,791,675 A shares upon completion of the conversion.

- (ii) On January 19, 2017, the Board of Directors approved that the a new investment through its wholly-owned subsidiary, Dazhong Hong Kong, to an independent investment fund, namely Xinhau Capital Development Fund with investment capital US\$30 million. This investment fund aim to investing in certain targeted PRC technical development companies.
- (iii) On February 24, 2017, the Company signed an "Asset Management Plan" with Xingye Bank and Xingye Security Assets Management Co., Ltd. to manage the equity shares of 11 million shares of Dazhong Transportation Group and 5.2 million shares of Songz Automobile Air Conditioning Co., Ltd. Details please refer to the announcement dated February 27, 2017.
- (iv) On 10 March 2017, the Company engaged in a partnership agreement and acted as a limited partner ("LP") with one general partner, namely Shanghai Hualin Equity Investment Management Centre, and three limited partners, namely Shanghai Huayi Group Investment Ltd., Shanghai Guosheng Group Assets Co., Ltd. and Dongfang Guoji Group Shanghai Investment Co., Ltd.. The Company acquired RMB90 million equity interest and agreed to further increase the capital injection of RMB910 million in cash to a Fund called Hua Can Fund. The Company becomes a LP of the fund and holds the equity interests of 60.24% of the fund. Details please refer to the announcement dated 13 March 2017.

The Group is in the process of assessing the potential impact of the above new investments but is not yet in a position to state whether the above investments will have a significant impact on the Group's results of operations and financial position.

56. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2016 were approved for issue by the directors on March 30, 2017.



上海大眾公用事業（集團）股份有限公司

SHANGHAI DAZHONG PUBLIC UTILITIES (GROUP) CO.,LTD.

地址：上海市中山西路1515號大眾大廈8樓

電話：021-64288888 傳真：021-64288727

郵編：200235 網址：www.dzug.cn