Shanghai Electric

2016 ANNUAL REPORT

Shanghai Electric Group Company Limited

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

www.shanghai-electric.com

Contents

02 / Chairman's Statement

07 / Corporate Profile

09 / Five-year Financial Summary

10 / Key Accounting Data and Financial Indicators

11 / Share Capital Structure

12 / Disclosure of Interests

17 / Directors, Supervisors, Senior Management and Staff

28 / Corporate Governance Report

37 / Summary of General Meetings

38 / Report of the Directors

55 / Significant Events

65 / Independent Auditor's Report

71 / CONSOLIDATED INCOME STATEMENT

72 / CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

73 / CONSOLIDATED BALANCE SHEET

76 / CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

78 / CONSOLIDATED STATEMENT OF CASH FLOWS

80 / NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Chairman's Statement

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
Huang Dinan

In 2016, the global economy was experiencing an "intensified consolidation" period as it was clouded with the slowdown of economic growth and many uncertainties and instabilities, while the economy in the PRC was still experiencing its "L-shape" transition period. Under the backdrop where conflicting macroeconomic condition was significant between overcapacity and upgrade in market demand structure, as well as the lack of organic growth momentum, Shanghai Electric adhered to the principle of "One Company", emphasized on stability and resilience, insisted on "cash is king", further deepened our reform and accelerated innovation. The Company made steady progress in respect of major work focuses determined at the beginning of the year and maintained a stable development trend, thus, marking a crucial step for Shanghai Electric in its transformation into a quality and effectiveness focused corporate group. During the reporting period, the Company achieved a turnover of RMB79,078 million, representing a decrease of 0.5% as compared to that of the preceding year; the net profit attributable to shareholders of the parent company amounted to RMB 2,018 million, representing a decrease of 3.6% as compared to that of the preceding year.

During the reporting period, our capabilities and technology for our core industries have been enhanced continuously, with both our second reheat ultra-supercritical coal-fired power generation equipment and high temperature gas-cooled reactor technology selected for the technology achievement presentation for the State's "12th Five-Year" plan. Our core technologies and engineering application for integrated coal-gasification combined cycle power generation unit of 250MW, as well as our elevator high safety package of exclusive control device and system, won the prize of "2016 National Science and Technology Progress Award" (2016年國家科技進步獎). During the reporting period, we continued to push forward our centralized management and controls at group level at steady pace, with subordinated projects being implemented in an orderly manner based on a top-down design proposal so that the "centralized management and controls at group level and hierarchy-reduced operation structure" development could advance systematically and effectively towards that direction. Establishment of a corporate shared services center (with focus on human resources, finance, procurement and information technology) was also proceeding in an orderly manner. During the reporting period, we strengthened our brand building through aligning our brand with quality, and enhanced our brand value through management and controls. On the top 500 list for Asian brands, Shanghai Electric, ranking the 98th, made its debut into the top 100, a jump on the list as compared to the 149th ranking in the preceding year.

During the reporting period, the Company obtained new orders in the amount of RMB75,600 million, representing an increase of 25.37% over the preceding year, among which, new orders from new energy and environmental protection equipment, high efficiency and clean energy equipment and modern services accounted for 21.40%, 43.68% and 34.92% of the total new orders, respectively. As at the end of the reporting period, the Company's orders on hand amounted to RMB221,580 million (with orders in the aggregate amount of RMB95,630 million not yet coming into effect), representing a decrease of 14.97% over the preceding year. Orders on hand from new energy and environmental protection equipment, high efficiency and clean energy equipment and modern services accounted for 11.79%, 59.01% and 29.20% of the total orders on hand respectively.

New Energy and Environmental Protection Equipment

During the reporting period, domestic nuclear power market began to recover gradually. Most of the nuclear power projects under construction made steady advancement while new nuclear power projects were moving forward slowly. During the reporting period, the delivery of the first pressure vessel and metal reactor vessel internals for high temperature gas-cooled reactor developed by Shanghai Electric has officially been launched, marking a new and essential breakthrough for the production capabilities for nuclear power equipment of Shanghai Electric. Besides, the reactor vessel internals for CAP1400 project, a major project for National Energy Administration of China, passed the pre-inspection, filling the gap in relevant field in China. During the reporting period, we acquired new orders for nuclear power nuclear island equipment of RMB2,150 million, representing a year-on-year increase of 90.27%. During the reporting period, we continued to maintain our leading position in offshore wind power equipment market in China. With our addition of new offshore wind power installation capacity of 489MW, Shanghai Electric became the largest manufacturer for offshore wind turbines in the world for the year of 2016. We proactively enhanced our capabilities in research and development of wind power technologies and engineering services, and at the same time explored the business model of investment in and operation of as well as engineering contracting for wind farms. We also commenced construction of wind farms in Heilongjiang Province and started the wind farms investment and development business model. Our cloud computing and big data-based remote system management platform, "Feng Yun" system, had been put online, creating a new service model for wind power station in the technological revolution era. According to the data published by the Chinese Wind Energy Association, the new wind power installed capacity addition for 2016 in the PRC was 23.37 GW, representing a substantial decrease as compared to 30.75GW of 2015. However, we still recorded increase in terms of new orders and sales revenue. During the reporting period, we received new wind power equipment orders of RMB13,020 million, representing an increase of 18.15% over the preceding year. Wind power equipment orders on hand by the end of the reporting period amounted to RMB11,360 million, thrusting another new record high. During the reporting period, our environmental protection business had set up a comprehensive industry chain covering domains of "engineering + design, technology + product, operation + service". We focused on four main businesses, namely power station environment protection, solid waste treatment, water treatment and distributed energy. We have successively signed a series of photovoltaic projects in Anhui, Hebei and Tianjin, with a total contracted capacity of over 1,000MW. We entered into strategic cooperation with Shenhua Group and Manz AG and jointly promote the development of businesses related to CIGS (referring to "copper indium gallium selenium") solar energy thin film battery by capitalizing the market dominance of Shenhua Group, technical advantages of Manz AG and the equipment manufacturing strength of Shanghai Electric.

During the reporting period, new energy and environmental protection equipment segment recorded revenue of RMB13,392 million, a year-on-year growth of 10.9%, of which revenue from wind power equipment achieved a year-on-year growth of 13.6%. Gross profit margin for the segment was 15.7%, an increase of 5.7 percentage points year-on-year, mainly due to the increase in proportion of revenue from offshore wind power equipment during the reporting period.

High Efficiency and Clean Energy Equipment

During the reporting period, given the continuous slowdown in domestic thermal power market, we intensively cultivated our thermal power equipment business by changing gradually from passive engagement in the development of new products driven by market demands, to an active innovation model with product research and development leading the market demands. Our second reheat coal-fired power generation unit is leading in the market in terms of its technical standards such as advanced technology, high efficiency and low coal consumption level. The designed emission standards for the 2 sets of 1000MW ultra-supercritical second reheat technology coal-fired unit project obtained by us from Shandong Boxing have been very close to the emission standard for gas turbines. We proactively expanded business into overseas markets and successively undertook seven overseas orders for thermal power generation equipment from various countries or areas including Java in Indonesia, Payra in People's Republic of Bangladesh and Mariveles in Philippines, offsetting the adverse impact brought to us by the decrease in domestic demand for thermal power generation equipment. For gas turbines, we worked together with Ansaldo through in-depth cooperation in aspects such as marketing, technology transfer and technical collaboration and have established "Four Globalization Strategies" for the industry development of gas turbines, namely, globalized research and development platform, globalized manufacture base, globalized sales network and globalized service team. We acquired 14% equity interests in Suvast Special Alloy Technology Company Limited (江蘇永瀚特種合金技術有限公司) and further improved the industrial layout in the gas turbine manufacturing chain. During the reporting period, we received 9 orders for gas turbines of RMB 3590 million in total, representing a slight increase as compared to the preceding year. Orders for gas turbines on hand amounted to RMB10,400 million, representing an increase of 14.92% as compared to the preceding year. During the reporting period, we stressed on the further development of the industry strategic plan of "3+1", which refers to development direction towards "high voltage technology, intelligence based manufacturing, power electronics technology and engineering service" for our power transmission and distribution equipment business, continuously enhanced our industry capability level and proactively strived for market expansion. We were successively awarded the tender for 220-750kV transformers project in the 2nd tender invitation for power transmission equipment from State Grid Corporation of China in 2016, as well as the tender for engineering supplies procurement project of upgrading 500kV Sijing transformer from tender invitation from Shanghai Municipal Power Corporation under State Grid Corporation of China. With our self-developed DC traction supply substation, we succeeded in winning the tender for the modern light rail project of Longhua New District in Shenzhen, which was a breakthrough in obtaining our first order of DC traction supply equipment to be used in the rail systems in China. The project we undertook for the power supply for railway in between Ethiopia-Djibouti in Africa had been successfully completed, contributing to the electrification of the railways for the two countries. Taking this as an opportunity, we undertook the BDWC power supply project in Ethiopia, establishing a solid foundation for the further development in the African market of power transmission and distribution.

During the reporting period, revenue from high efficiency and clean energy equipment segment was RMB28,104 million, a year-on-year decline of 5.4%, mainly due to reduction in revenue from coal-fired power generation equipment and power transmission and distribution equipment resulted from impact of the macroeconomic situation in China. Gross profit margin for the segment was 16.5%, down 0.3 percentage point from that of the preceding year, mainly due to the reduction of gross profit margin of coal-fired power generation equipment products.

Industrial Equipment

During the reporting period, the real estate market in China experienced an imbalance development over different regions while competition in the elevator market turned white hot. In order to deal with the intensifying competition,

Shanghai Mitsubishi Elevator Co., Ltd ("SMEC") continuously deepened the communication with customers in respect of design, planning and service control, in order to enhance the responding capability of its service network in all regions across the country. At the same time, we moved forward the establishment of training centers in various regions and improved the service capability of our staff members. During the reporting period, major projects undertaken include Qingdao Light Rail No.11 (Blue Silicon Valley), Gui An High-speed Train Project, New Qingdao Jiaodong International Airport, Shenzhen Metro Lines 3, 5, 6 and 9, Nanchang MetroLine 2, etc. SMEC continuously extended its service industrialization development. Income from installation as well as repairs and maintenance enjoyed a fast growth. While accelerating the establishment of outlets taking maintenance and repair orders, SMEC improved the success rate and efficiency in taking maintenance orders by applying information technology infrastructure establishment supplemented by various formats in delivering the maintenance works, resulting in apparent increase in business from repairs of existing elevators, and retrofit of obsolete elevators. In 2016, the income from service business including installation, repairs and maintenance for SMEC was over RMB4.5 billion, representing a year-on-year increase of 11.77%, and accounted for more than 25% of its turnover. During the reporting period, we successively acquired Broetje Company (寶爾捷公司) through the acquisition of TEC4AERO GmbH. Broetje Company is a German supplier of aeronautical equipment and related automatic system with a product portfolio covering the entire process chain for assembly of aerostructures and the related components and application solutions, offering complete assembly lines as well as fastening machines for all types of structured assemblies, and final assemblies. Its major customers include large aircraft manufacturers such as Airbus SAS and the Boeing Company, etc. We will leverage on the technologies of Broetje Company in the future to proactively enter the domestic market for aviation industry, thus enhance the technology capability of the Company in the automation industry.

During the reporting period, revenue from industrial equipment segment was RMB23,769 million, a reduction of 3.8% compared to the preceding year, mainly due to the impact from completion of the strategic exit from printing machinery business during the preceding year. Gross profit margin for the segment was 22.0%, an increase of 0.9 percentage point compared to the preceding year.

Modern Services

During the reporting period, we continued to develop our power plant engineering business at a steady pace. Devising upon the National Initiative of "One Belt, One Road", we regarded over 50 countries and regions covered by the "One Belt One Road" initiative as the core markets of our engineering industry. We have set up a new subsidiary in Pakistan and planned to extend our overseas sales network into South Africa, Malaysia, Turkey, Poland and Columbia, and actively promote the construction of sales networks, so as to achieve the sales capacity in multiple regions. A general contracting agreement BDWC-1-LOT3A on design, equipment supply, land construction work and installation of a power supply substation was entered into between our Company and Ethiopia Electric Power with a total contract sum of approximately US$100 million. Regarding our power plant engineering business, we are developing new energy and distributed energy markets instead of focusing merely on coal-fired market. We will also strive to facilitate the business model of "integrating business and finance" while enhancing the effort on project investment and project financing to increase market share. During the reporting period, to capture opportunities in the market of thermal power enhancement projects, we undertook an EPC contract relating to the capacity expansion, energy conservation, emission reduction as well as integration and upgrading of phase two of Daihai power plants in Inner Mongolia, thereby continuing to achieve breakthroughs in aspect of upgrading power generating units market. During the reporting period, Shanghai Electric officially established the Shanghai Electric Finance Group, which was committed to becoming "the best model of financial business within the global equipment manufacturing industry in alignment with the practical situations of China". During the reporting period, our financial service platform has continued the expansion of its services and functionality, and has been gradually transformed from single internal banking service provider into a comprehensive financial services provider with diversified financial services.

During the reporting period, modern services revenue was RMB17,842 million, basically same level compared to the preceding year. The segment's gross profit margin was 15.0%, a decline of 0.4 percentage point year-on-year, mainly due to decline of revenue from overseas engineering business during the reporting period.

During the reporting period, modern services revenue was RMB17,842 million, basically same level compared to the preceding year. The segment's gross profit margin was 15.0%, a decline of 0.4 percentage point year-on-year, mainly due to decline of revenue from overseas engineering business during the reporting period.

Looking forward to the future, we will be actively docking with Made in China 2025, staying on the track of "adhering to the development theme of innovative development, insisting on pressing ahead development with a direction towards high-end technology, asset-light business structure, centralized management and control at group level, hierarchy-reduced operation structure, as well as intelligent products", adhering to "making progress in business development while maintaining stability" and ensure "stability" by "development progress", insisting on the concept of "One Company", adhering to improvement of our internal strength, and staying on the philosophy of "cash is king". We will promote the development by innovation, support the reformation by development, enhance the management by reformation, and make unremitting efforts to expedite the Group's transformation into a quality and effectiveness focused corporate group.

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

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

Huang Dinan
Chairman of the Board
Shanghai, PRC, 17 March, 2017

Corporate Profile

Corporate Information

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

Contact Person and Contact Details

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

Summary of Basic Information

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

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

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

Summary of the Company's Shares

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

Registrar and Transfer Office

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

H Shares: Computershare Hong Kong Investor Services Limited

Other Relevant Information

Date of Incorporation of the Company	1 March 2004
Place of Incorporation of the Company	Shanghai, PRC
Name of domestic auditors appointed by the Company	PricewaterhouseCoopers Zhong Tian LLP
Business address of auditors appointed by the Company	11/F PricewaterhouseCoopers Center2 Corporate Aevenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
Name of international auditors appointed by the Company:	PricewaterhouseCoopers
Business address of international auditors appointed by the Company:	20/F, Prince Building, Central, Hongkong
Legal advisers appointed by the Company as to PRC Law:	Grandall Law Firm (Shanghai)
Legal advisers appointed by the Company as to Hong Kong Law and U.S. Law:	Clifford Chance
Legal advisers appointed by the Company as to Japanese Law:	Anderson Mori & Tomotsune

Five-year Financial Summary

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

Unit: '000,000 Currency: RMB

	2012	2013	2014 (Restated)	2015 (Restated)	2016
Revenue and Profit					
Revenue	76,591	78,795	78,486	79,461	**79,078**
Profit before tax	5,726	5,283	5,753	6,000	**5,274**
Tax	(1,344)	(1,073)	(934)	(1,298)	**(1,113)**
Profit for the year	4,382	4,210	4,819	4,702	**4,161**
Attributable to:					
Owners of the Company	2,715	2,393	2,727	2,094	**2,018**
Non-controlling interests	1,667	1,817	2,092	2,608	**2,143**
Dividend	817	957	753	-	**-**
Earnings per share attributable to ordinary equity holders of the Company					
Basic Profit for the year (cents)	21.17	18.66	19.58	15.92	**15.24**
Assets and Liabilities					
Non-current assets	26,883	27,822	34,248	35,347	**41,850**
Current assets	91,816	101,471	113,314	130,121	**133,784**
Current liabilities	(73,786)	(82,237)	(94,340)	(100,536)	**(103,061)**
Net current assets	18,030	19,234	18,974	29,585	**30,723**
Total assets less current liabilities	44,913	47,056	53,222	64,932	**72,573**
Non-current liabilities	(4,231)	(4,347)	(4,880)	(12,944)	**(14,926)**
Net assets	40,682	42,709	48,342	51,988	**57,647**
Equity attributable to owners of the Company	30,506	32,206	36,780	39,269	**45,093**
Non-controlling interests	10,176	10,503	11,562	12,719	**12,554**

Note: Comparative figures for 2014 and 2015 have been restated in accordance with the reporting requirements for business combination under common control.

Key Accounting Data and Financial Indicators

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

(in accordance with the PRC GAAP)

Unit: '000 Currency: RMB

Key accounting data	2016	2015 (Restated)	Change for the period over the corresponding period of the last å(%)
Operating revenue	79,078,361	79,460,611	-0.48
Total profit	5,444,319	6,193,124	-12.09
Net profit attributable to shareholders of the listed company	2,060,170	2,142,615	-3.85
Net cash flows generated from operating activities	9,949,389	8,358,553	19.03
	At the end of 2016	At the end of 2015 (Restated)	Change as at the end of the period over the end of the period of the last year (%)
Total assets	175,633,911	165,467,872	6.14
Equity attributable to shareholders of the listed company	45,092,754	39,269,082	14.83
Key financial indicators	2016	2015 (Restated)	Change for the period over the corresponding period of the last year (%)
Basic earnings per share (RMB/share)	0.1556	0.1629	-4.48
Diluted earnings per share (RMB/share)	0.1556	0.1629	-4.48
Weighted average net assets return rate (%)	4.94	5.56	Decreased by 0.62percentage points
Net cash flows per share generated from operating activities (RMB/share)	0.75	0.64	17.19
	At the end of 2016	At the end of 2015 (Restated)	Change as at the end of the period over the end of the period of the last year (%)
Net assets per share attributable to shareholders of the listed company (RMB/ share)	3.40	2.99	13.71

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

Differences between the PRC GAAP and HKFRSs

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

Unit: '000 Currency: RMB

	Net profit		Net assets	
	Current period	Previous period	At the end of the period	At the beginning of the period
In accordance with the PRC GAAP	2,060,170	2,142,615	45,092,754	39,269,082
Items and amounts adjusted in accordance with HKFRSs:				
Staff bonus and welfare funds	-49,055	-74,426		
Safe production expenditures	6,728	25,125		
In accordance with HKFRSs	2,017,843	2,093,314	45,092,754	39,269,082

Share Capital Structure

As at 31 December 2015	Number of shares	Approximate percentage of issued share capital
A shares	10,458,244,430	77.87%
H shares	2,972,912,000	22.13%
Total	13,431,156,430	100.00%

Disclosure of Interests

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

The followings are interests and short positions of substantial shareholders as at 31 December 2016 as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, Hong Kong ("SFO") and as to the knowledge of the Company:

Name of Substantial Shareholder	Class of shares	Capacity	Note	Number of shares	Nature of Interest	Percentage of the relevant shares in issue (%)	Percentage of all the issued shares (%)
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	A	Interest of controlled corporation	1	7,967,809,211*	Long position	76.19	59.32
	H	Interest of controlled corporation	1	229,334,000	Long position	7.72	1.71
Shanghai Electric (Group) Corporation	A	Beneficial owner	1	7,576,917,017*	Long position	72.45	56.41
	H	Beneficial owner	1	200,000,000	Long position	6.73	1.49
	H	Interest of controlled corporation	1,2	29,334,000	Long position	0.99	0.22
Shenergy Group Company Limited	A	Beneficial owner	1	390,892,194*	Long position	3.74	2.91
Sarasin & Partners LLP	H	Investment manager		189,238,000	Long position	6.37	1.41
BlackRock, Inc.	H	Interest of controlled corporation	3	152,601,419	Long position	5.13	1.14

As disclosed in the Announcement On Issue Results of the Restructuring and Change in Share Capital published in the website of the Stock Exchange of Hongkong Limited on 31August 2016.

Notes

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

(2) Shanghai Electric (Group) Corporation (上海電氣(集團)總公司) through its wholly-owned subsidiary, Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司), held H shares of the Company.

(3) BlackRock, Inc. had a long position of 152,601,419 H shares of the Company by virtue of its control over the following indirect wholly-owned subsidiaries:-

(3.1) BlackRock Investment Management, LLC, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,106,000 H shares of the Company.

(3.2) BlackRock Financial Management, Inc., an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 484,343 H shares of the Company.

(3.3) BlackRock Institutional Trust Company, National Association, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 32,585,808 H shares of the Company.

(3.4) BlackRock Fund Advisors, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 57,322,000 H shares of the Company.

(3.5) BlackRock Advisors, LLC, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 32,000 H shares of the Company.

(3.6) BlackRock Japan Co., Ltd., an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 3,028,000 H shares of the Company.

(3.7) BlackRock Asset Management Canada Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 288,000 H shares of the Company.

(3.8) BlackRock Investment Management (Australia) Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 406,000 H shares of the Company.

(3.9) BlackRock Asset Management North Asia Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,510,227 H shares of the Company.

(3.10) BlackRock (Netherlands) B.V., an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 452,000 H shares of the Company.

(3.11) BlackRock Advisors (UK) Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 20,655,069 H shares of the Company.

(3.12) BlackRock International Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,150,000 H shares of the Company.

(3.13) BlackRock Asset Management Ireland Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 16,616,000 H shares of the Company.

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

(3.15) BlackRock Investment Management (UK) Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 15,457,972 H shares of the Company.

(3.16) BlackRock Fund Managers Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 1,044,000 H shares of the Company.

(3.17) BlackRock (Singapore) Limited, an indirect wholly-owned subsidiary of BlackRock, Inc., had a long position in 90,000 H shares of the Company.

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

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2016 required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

As at 31 December 2016, none of the directors, supervisors or chief executives (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules")) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified by the directors, supervisors or chief executives to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules. Also, no right to acquire the aforementioned interests had been granted to the directors, supervisors or chief executives of the Company.

Disclosure of Interests

Directors, Supervisors, Senior Management and Staff

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

Name	Position	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Movement in the number of shares for the year	Reason for the movement	Total payable remuneration received from the Company during the reporting period (RMB in ten thousand) (before tax)
Huang Dinan	ExecutiveDirector, Chairman of the Board and Chief Executive Officer	Male	50	26 February 2014	25 February 2017					
Zhu Kelin	Non-executive Director and Vice Chairman of the Board	Male	54	26 February 2014	25 February 2017					
Zheng Jianhua	Executive Director and President	Male	56	26 February 2014	25 February 2017					77.1
Li Jianjin	Non-executive Director and Vic	Male	58	28 June 2016	25 February 2017					
Huang Ou	Executive Director, Vice President and Chief Technology Officer	Male	45	26 February 2014	25 February 2017					69.4
Yao Minfang	Non-executive Director	Female	49	26 February 2014	25 February 2017					
Lui Sun Wing	Independent Non-executive Director	Male	66	26 February 2014	25 February 2017					25
Kan Shun Ming	Independent Non-executive Director	Male	59	26 February 2014	25 February 2017					25
Chu Junhao	Independent Non-executive Director	Male	71	4 August 2014	25 February 2017					25
Dong Jianhua	Chairman of the Supervisory Committee	Male	51	26 February 2014	25 February 2017					
Li Bin	Supervisor	Male	56	26 February 2014	25 February 2017					
Zhou Changsheng	Supervisor	Male	51	26 February 2014	25 February 2017					
Zheng Weijian	Supervisor	Male	55	26 February 2014	25 February 2017					
Zhu Genfu	Vice president	Male	51	15 August 2014	25 February 2017					65.5
Zhang Ke	Vice president	Male	56	20 May 2016	25 February 2017					
Chen Ganjin	Vice president	Male	48	20 January 2017	25 February 2017					
Hu Kang	Chief Financial Officer	Male	53	26 February 2014	25 February 2017					73.3
Li Jing	Chief Information Officer	Female	49	26 February 2014	25 February 2017	2,996	2,996			86.3
Tong Liping	Chief Legal Officer	Female	45	26 February 2014	25 February 2017					75.3
Fu Rong	Secretary to the Board	Female	46	26 February 2014	25 February 2017					69
Li Chung Kwong Andrew	Company Secretary	Male	57	26 February 2014	25 February 2017					110
Total	/	/	/	/	/	2,996	2,996	/		700.9

Note: The term of office (3 years) of the fourth-term board of directors and supervisory committee of the Company has expired on 25 February 2017. Given that the nomination work of the candidates for the relevant directors and supervisors of the Company has not completed and in order to keep the continuity of the work of the board of directors and supervisory committee of the Company, the general election of the fourth-term board of directors and supervisory committee has been postponed until the shareholders of the Company approve the composition of the new board of directors and supervisory committee pursuant to the Articles of Association of the Company. At the meanwhile, the term of office of the special committees of the board of directors and the senior management personnel of the Company has also been postponed accordingly.

Major work experience

Huang Dinan

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

Zhu Kelin

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

Zheng Jianhua

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

Li Jianjin

Joined the Company in June 2016 and is currently a non-executive Director of the Company. He is also the deputy secretary of CPC Party Committee of Shanghai Electric (Group) Corporation. Mr. Li has extensive experience in corporate management. He formerly served as the secretary of CPC Party Committee, director and vice chairman of the supervisory committee of Shanghai Diesel Engine Co., Ltd., and the secretary of CPC Party Committee of Shanghai Dianji University. Mr. Li graduated from Fudan University majoring in administration management and is a senior political affairs specialist.

Huang Ou

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

Yao Minfang

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

Lui Sun Wing

Joined the Company in December 2010 and is currently an independent non-executive Director of the Company. Dr. Lui joined the Hong Kong Productivity Council in October 1981, and served in various positions. In December 1992, he was promoted to the vice-president, primarily providing research, consultancy and training services for the industrial and commercial sector as well as enhancing corporate management and productivity. He then joined The Hong Kong Polytechnic University as its vice president from July 2000 to his retirement in June 2010, responsible for facilitating industry-university collaboration, leading applied research and transforming research results. Dr. Lui is also a former international director of SAE International, a founding director of SAE International-Hong Kong, the former president of The Hong Kong Association for the Advancement of Science and Technology, as well as an honorary president and honorary advisor of multiple commercial, industrial and professional associations. Dr. Lui is currently an independent non-executive director of Human Health Holdings Limited and Shenzhen GTA Information Technology Co., Ltd. (unlisted), and a non-executive director of Eco-Tek Holdings Limited. Dr. Lui obtained his PhD degree in mechanical engineering from the University of Birmingham in the UK.

Kan Shun Ming

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

Chu Junhao

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

Dong Jianhua

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

Li Bin

Joined the Company in November 2007 and is currently an employee representative of the supervisory committee of the Company, a vice chairman of Shanghai General Labour Union, a vice chairman of Shanghai Mechanical and Electrical Union, the chief technologist of Shanghai Electric Hydraulic & Pneumatics Co., Ltd., and the head of the production section of computer numerical control (CNC) of Shanghai Hydraulic Pump Factory. Since 1980, Mr. Li has been a worker of the second workshop, commissioning engineer and head of the commissioning team of CNC machine tools of Shanghai Hydraulic Pump Factory. Mr. Li is also a member of the experts committee of China Hydraulics Pneumatic & Seals Association, chairman of Shanghai Technicians Association, and the deputy director of the Research Institute of Optomechatronics Technology of Shanghai Second Polytechnic University. Mr. Li graduated from Shanghai Second Polytechnic University, majoring in electromechanical engineering. Mr. Li is an engineer and a senior technician.

Zhou Changsheng

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

Zheng Weijian

Is currently a Supervisor of the Company, and chairman of the supervisory committee of Guangdong Zhujiang Investment Co., Ltd. Since January 2008, Mr. Zheng has been the chairman of the supervisory committee of Guangdong Zhujiang Investment Co., Ltd. From January 2013 to January 2017, Mr. Zheng was the chairman of Guangdong Zhujiang Investment Management Group Co., Ltd. Since July 2012, Mr. Zheng has been the chairman of Fengchi Investment Co., Ltd. He was also a Supervisor of the Company from 2004 to 2007. Mr. Zheng holds a master's degree in business administration from Macau University of Science and Technology. He is also a senior certified international accountant and senior international finance manager.

Zhu Genfu

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

Zhang Ke

Is currently a vice president of the Company. Mr. Zhang has in-depth knowledge about boiler technologies and extensive experience in corporate operation and management. He was formerly the chairman of Shanghai Industrial Boiler Research Institute, and the chief economist and deputy chief engineer of Shanghai Electric (Group) Corporation. Mr. Zhang has obtained a bachelor's degree in engineering and is a senior engineer of professorial level.

Chen Ganjin

Is currently a vice president of the Company. Mr. Chen has extensive experience in corporate management. He was formerly the chairman and secretary of CPC Party Committee of Shanghai Boiler Works, Ltd., the general manager of Shanghai Diesel Engine Co., Ltd., the general manager and secretary of CPC Party Committee of Shanghai Rail Traffic Equipment Development Co., Ltd., the president of Shanghai Electric Heavy Industry Group, the chairman of Shanghai Heavy Machinery Plant Co., Ltd., the vice president and chief operating officer of Shanghai Electric Group Company Limited, and the secretary of CPC Party Committee and general manager of Shanghai Zhangjiang (Group) Company Limited (ZJ Group). Mr. Chen graduated from Xi'an Jiaotong University with a bachelor's degree in Engineering, majoring in thermal energy and power engineering of power stations. Mr. Chen obtained a master's degree in business administration from China Europe International Business School and a master's degree in professional accounting from The Chinese University of Hong Kong.

Hu Kang

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

Li Jing

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

Tong Liping

Joined the Company in March 2004 and currently serves as the chief legal officer, head of the legal affairs department and solicitor of the Company. Ms. Tong has long been working on corporate legal affairs and experienced in legal affairs management, with rich knowledge in relevant laws. Ms. Tong served as the director of the legal and audit office and head of the legal affairs department of Shanghai Electric Power Generation Group from 2004 to 2010. In addition, she served also as the director of the legal affairs center of the Company from 2006 to 2008. Since 2008, she has successively assumed the role of deputy director and director of the legal affairs department and then chief legal counsel of the Company. Ms. Tong graduated from Shanghai Fudan University with a master's degree in law.

Fu Rong

Joined the Company in June 2005 and is currently the secretary to the Board, secretariat director of the Board, and head of the office of the Company. She has formerly successively assumed the role of the securities affairs representative of Shanghai Power Transmission and Distribution Co., Ltd., the marketing director of the low-voltage product division of ABB (China) Investment Ltd., the board secretary and head of the securities department of Shanghai Electric Devices Company Limited, the board secretary and head of the securities department of Shanghai Power Transmission and Distribution Co., Ltd., and the head of both the human resources department and investor relations department of the Company. Ms. Fu Rong holds a master's degree in business administration and is an economist.

Li Chung Kwong Andrew

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

Employment status with shareholder entities

Name	Name of shareholder entities	Position in shareholder entities	Term of office commencing on	Term of office ending on
Huang Dinan	Shanghai Electric (Group) Corporation	Chairman of the Board	May 2014	to present
Zheng Jianhua	Shanghai Electric (Group) Corporation	Vice Chairman of the Board	May 2014	to present
Zhu Kelin	Fengchi Investment Co., Ltd.	General Manager	July 2012	to present
Dong Jianhua	Shanghai Electric (Group) Corporation	Chief Financial Officer	April 2008	to present
		Vice President	April 2016	to present
Yao Minfang	Shenergy Group Company Limited	Manager of the Investment Management Department	March 2009	to present
Zhou Changsheng	Shenergy Company Limited	Director of Internal Control Department	November 2016	to present
Zheng Weijian	Fengchi Investment Co., Ltd.	Chairman of the Board	July 2012	to present

Employment status with other entities

Name	Name of other entities	Position in other entities	Term of office commencing on	Term of office ending on
Zhu Kelin	Guangdong Zhujiang Investment Co., Ltd.	Chairman of the Board	December 2007	to present
Lui Sun Wing	Eco-Tek Holdings Limited	Non-executive Director	January 2001	to present
	Human Health Holdings Limited	Independent Non-executive Director	August 2016	to present
	Shenzhen GTA Information Technology Co., Ltd.	Independent Non-executive Director	November 2014	to present
Kan Shun Ming	Wong Brothers & Co Certified Public Accountants	Partner	1990	to present
	Authosis Ventures (翱科創業投資有限公司)	Director	2001	to present
	Hong Kong Public Doctors' Association	Honorary auditor	1991	to present
	German Chamber of Commerce Hong Kong	Honorary auditor	1990	to present
	Tseung Kwan O Hospital of Hong Kong Hospital Authority	Member of the Governing Committee	April 2014	to present
Chu Junhao	Shanghai Institute of Technical Physics	Researcher	December 1984	to present
	School of Information Science Technology, East China Normal University	Dean	July 2006	to present
	Shanghai Solar Cells Research and Development Center	Head	January 2008	to present
Dong Jianhua	Shanghai Lingang Holdings Corporation Limited	Director	8 September 2015	27 September 2018
	Shanghai Highly (Group) Co., Ltd.	Chairman of the Supervisory Committee	April 2013	to present
Li Bin	Shanghai Electric Hydraulic & Pneumatics Co., Ltd.	Chief technician	October 2004	to present
Zhou Changsheng	Anhui Wuhu Nuclear Power Co., Ltd.	Chief auditor	March 2009	to present
Zhou Changsheng	Shanghai Shenergy Electrical Technology Company Limited (上海申能電力科技有限公司)	Supervisor	January 2017	to present
Zheng Weijian	Guangdong Zhujiang Investment Co., Ltd.	Chairman of the Supervisory Committee	January 2008	to present

Remunerations of Directors, Supervisors and Senior Management

Procedures to determine the remunerations of Directors, Supervisors and Senior Management	The remunerations of our Directors and Supervisors (non-employee representatives) are determined in the general meeting, while the remunerations of our Senior Management are determined by the board of directors of the Company.
Basis for determining the remunerations of Directors, Supervisors and Senior Management	The remunerations of our Directors and Supervisors (non-employee representatives) are determined based on a number of factors, such as the operating results of the Company, their responsibilities, performance and market conditions. The remunerations of our Supervisors (employee representatives) and Senior Management are determined based on their responsibilities and degree of completion of annual operation plan.
The remunerations payable to Directors, Supervisors and Senior Management	The Company has paid the remunerations to its Directors, Supervisors and Senior Management based on their respective entitlement.
Total actual remunerations received by all Directors, Supervisors and Senior Management at the end of Reporting Period	RMB7.009 million

Changes of Directors, Supervisors and Senior Management of the Company

Name	Position	Change	Reason for the change
Wang Qiang	Vice Chairman of the Board	Resigned	Work requirements
Li Jianjin	Director	Elected	Elected at the general meeting
Huang Ou	Director, Vice President, Chief Technology Officer	Resigned	Work requirements
Zhang Ke	Vice President	Appointed	Work requirements
Chen Ganjin	Vice President	Appointed	Work requirements
Chen Hong	Chief Investment officer	Resigned	Age reason

Employees of the Company and Principal Subsidiaries

Staff

Number of current staff in the Company	84
Number of current staff in the principal subsidiaries	29,209
Total number of current staff	29,293
Number of retired staff for whom the Company and the principal subsidiaries are responsible for the retirement benefits	291

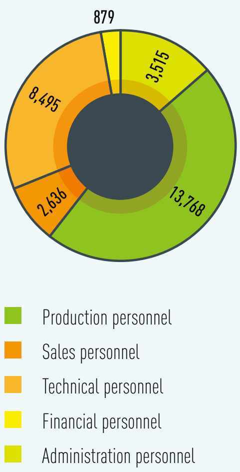
Personnel classification

Personnel categories	Number of persons
Production personnel	13,768
Sales personnel	2,636
Technical personnel	8,495
Financial personnel	879
Administration personnel	3,515
Total	29,293

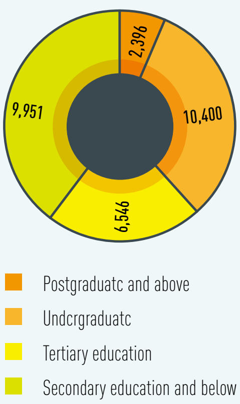
Education Level

Categories by education level	Number of persons
Postgraduate and above	2,396
Undergraduate	10,400
Tertiary education	6,546
Secondary education and below	9,951
Total	29,293

Statistical Chart of Personnel Classification



Statistical Chart of Education Level



Remuneration Policy

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

Training Program

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

Contracted Labour

Total remuneration paid to contracted labour	RMB97 million

Services Contracts of Directors and Supervisors

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

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

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

Permitted Indemnity Provision

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

Incentive Share Option Scheme

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

Corporate Governance Report

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code provisions regarding the purchase and sale of the Company's shares by the directors of the Company on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules of the Stock Exchange of Hong Kong Limited ("Hong Kong Listing Rules"). All directors and supervisors of the Company confirmed that they had complied with the requirements contained in the Model Code throughout the year 2016. The Company was not aware of any non-compliance of the Model Code by any staff.

Board of Directors

During the reporting period, the Board comprises nine Directors, including three executive Directors, namely Huang Dinan, Zheng Jianhua, Huang Ou (resigned on 20 January 2017), three non-executive Directors, namely Wang Qiang (resigned on 6 June 2016), Zhu Kelin, Li Jianjin (appointed on 28 June 2016) and Yao Minfang, and three independent non-executive Directors, namely Lui Sun Wing, Kan Shun Ming and Chu Junhao. The number of independent non-executive Directors represents one-third of the total number of Directors.

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

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

All independent non-executive directors have confirmed their independence with the Company as required under Rule 3.13 of the Hong Kong Listing Rules annually. The Company has received the annual confirmations from such Directors and considered them to be independent in 2016.

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

Every member of the Board has the right to access documents and relevant materials of the Board, to consult the Company Secretary and the Secretary to the Board on regulatory and compliance matters and to seek external professional advice when necessary. The Company Secretary and the Secretary to the Board provide all Directors with requirements under the Hong Kong Listing Rules and other applicable requirements to ensure the Company's compliance with and maintenance of excellent corporate governance.

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

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

Attendance of Directors at Board meetings and general meetings

Name of Directors	Independent Non-executive Director	Attendance at the Board meetings: Required attendance in Board meetings during the year	Attendance at the Board meetings: Attendance in person	Attendance at the Board meetings: Attendance via other communication means	Attendance at the Board meetings: Attendance by proxy	Attendance at the Board meetings: Absence	Attendance at the Board meetings: Personal absence for two or more consecutive meetings	Attendance at the general meetings: Attendance of general meetings
Huang Dinan	No	14	4	10	0	0	No	2
Zhu Kelin	No	14	3	10	1	0	No	0
Zheng Jianhua	No	14	4	10	0	0	No	1
Li Jianjin	No	7	2	5	0	0	No	0
Huang Ou	No	14	4	10	0	0	No	0
Yao Minfang	No	14	4	10	0	0	No	2
Lui Sun Wing	Yes	14	4	10	0	0	No	3
Kan Shun Ming	Yes	14	4	10	0	0	No	2
Chu Junhao	Yes	14	4	10	0	0	No	1

Number of Board meetings convened during the year	14
Of which: number of meetings by physical attendance	4
Number of meetings convened via communication means	10
Number of meetings convened by physical attendance as well as via communication means	0

Corporate Governance Functions

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

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

Audit Committee

The audit committee of the Company (the "Audit Committee") is mainly responsible for reviewing and overseeing the Company's risk management system, financial reporting procedures and internal control system, reporting the results of such review and making recommendations to the Board, and overseeing as well as accessing the establishment of sound risk management system of the Company and the completeness and effectiveness of its implementation on a regular basis in accordance with the requirements in relation to corporate risk management under Code on Corporate Governance and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The Audit Committee is also responsible for reviewing the quarterly, interim and annual financial statements, connected transactions, the appointment of and remuneration for auditors.

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

Eight meetings were held by the Audit Committee during the reporting period. During these meetings, the Audit Committee has reviewed and overseen the Company's risk management system, financial reporting procedures and internal control system, reported its results of review and made recommendations to the Board. Our Audit Committee has also reviewed the quarterly, interim and annual financial reports and profit distribution plan of the Company, material connected transactions, continuing connected transaction and the appointment of and remuneration for auditors, and attended to the report on the 2016 risk management plan of the Company by Audit and Inspection Office of the Company. On 15 March 2017, the Audit Committee reviewed and approved the 2016 risk management report of the Company.

During the reporting period, the attendance at the meetings of the Audit

Committee (actual attendance/required attendance at the meetings)

Name of Audit Committee Member	Actual attendance/ attendance required
Kan Shun Ming (Chairman of the Committee)	8/8
Lui Sun Wing	8/8
Chu Junhao	8/8
Yao Minfang	8/8

Remuneration Committee

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

The Remuneration Committee of the Company currently comprises Dr. Lui Sun Wing, Mr. Wang Qiang (resigned on 6 June 2016) and Mr. Chu Junhao, and is chaired by Dr. Lui Sun Wing.

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

During the reporting period, the attendance at the meetings of the Remuneration Committee

(actual attendance/required attendance at the meeting)

Name of Remuneration Committee Member	Actual attendance/ attendance required
Lui Sun Wing (Chairman of the Committee)	1/1
Wang Qiang	0/1
Chu Junhao	1/1

Strategic Committee

The strategic committee under the Board of the Company (the "Strategic Committee") currently comprises Mr. Huang Dinan, Mr. Wang Qiang (resigned on 6 June 2016), Mr. Zheng Jianhua, Dr. Lui Sun Wing and Mr. Chu Junhao, and is chaired by Mr. Huang Dinan.

No meeting was held by the Strategic Committee of the Company during the reporting period.

Nomination Committee

The nomination committee under the Board of the Company (the "Nomination Committee") currently comprises Mr. Chu Junhao, Mr. Wang Qiang (resigned on 6 June 2016) and Mr. Kan Shun Ming, and is chaired by Mr. Chu Junhao.

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

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

During the reporting period, the attendance at the meetings of the Nomination Committee

(attendance in person/required attendance at the meetings)

Name of Remuneration Committee Member	Actual attendance/ attendance required
Chu Junhao (Chairman of the Committee)	2/2
Wang Qiang	0/1
Kan Shun Ming	2/2

Directors' and Auditors' Responsibilities for Accounts

The Directors of the Company acknowledge their responsibilities for the preparation of financial reports for each financial year, which shall give a true and fair view of the financial position, the results and cash flows of the Group for that financial year. In preparing the financial report for the year ended 31 December 2016, the Directors have selected and consistently applied suitable accounting policies, made judgments and estimates that are prudent and reasonable, and have prepared the financial report on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Supervisory Committee

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

During the reporting period, the attendance at the meetings of the Supervisory Committee

(attendance in person/required attendance at the meetings)

Name of Remuneration Committee Member	Actual attendance/ attendance required
Dong Jianhua	8/9
Xie Tonglun (resigned on 29 April 2016)	5/5
Li Bin	8/9
Zhou Changsheng	9/9
Zheng Weijian	9/9

Senior Management

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

Risk Management and Internal Controls

According to the requirements in relation to corporate risk management and internal controls set out in Appendix 14 Corporate Governance Code and Corporate Governance Report to Listing Rules of Hong Kong Stock Exchange, the Company has established a comprehensive risk management and internal control system, including a system of structure and organization for risk management and internal controls, a system for relevant standards and relevant management principles, to reach a full implementation for risk management and internal controls. The intention of the establishment of such a risk management and internal control system is to enhance the scientificity, standardization and effectiveness for the management and operation of the Company, increase the risk control capability and ensure the continuous, stable and healthy development of all kinds of businesses of the Company. However, this is only a reasonable rather than an absolute guarantee against material untruthful representation or losses, as the intention is to manage instead of eliminating the risk of not achieving the business targets.

The Board confirms that it has the responsibility to examine the risk management and internal control system of the Company and through the Audit Committee reviews the effectiveness of such system every year. The Board of the Company and the Audit Committee oversee and evaluate the completeness and effectiveness in relation to the design and implementation of the risk management and internal control system, as well as review and approve the annual report on risk management and internal control evaluation report. The management of the Company is responsible for the establishment and improvement of the risk management and internal control system of the Company, the review of working plans and annual report on risk management and internal controls. The relevant departments of the Company responsible for risk management and internal controls shall design and establish the risk management and internal control system, as well as identify, evaluate, provide remedial measures for and report the risks, carry out evaluation of the internal controls, and appoint accounting firms to conduct financial reporting internal control audit, so as to identify internal control defects in a timely manner, urge the relevant operational departments and units to implement rectification measures and ensure the effective operation of the internal controls of the Company.

The Company has compiled the "Risk Management Regulations", "Procedures for Risk Management Implementation and Reporting", "Implementing Measures for Self-evaluation of Internal Controls" and "Procedures for Self-evaluation of Internal Controls", as well as has compiled the "Operation Handbook for Risk Management", and has made necessary arrangements for dissemination and training for relevant staff from all levels within the Company regarding risk management and internal controls.

Relevant departments of the Company responsible for risk management shall conduct risk study and identification in respect of the top five risks, including strategies, operations, markets, finance and legal affairs, at least once a year, and assess the level of risk according to standards stipulated in the system of the Company. It shall focus on significant or material risks, for which the departments shall compile risk solutions and shall take necessary action upon receiving the approvals from the management of the Company, then follow by a self-assessment on the progress of implementation and effectiveness. Internal audit department shall evaluate the effectiveness of the risk management system on a regular basis, and shall prepare the risk management report for submission to the management of the Company, the Audit Committee and the Board.

The internal audit department is responsible for overseeing and evaluation of the effectiveness over the implementation of the risk management and internal control system, prepare annual plan for internal control evaluation work, transfer qualified personnel with professional capability to form the evaluation team, conduct internal control evaluation for the units and businesses within the designated scope, identify internal control defects, make rectification suggestions, urge for completion of audit rectification suggestions, prepare internal control evaluation report and submit the report to the management, the Audit Committee, the Supervisory Board and the Board of the Company, so as to continuously enhance the effectiveness of the internal controls of the Company. According to the relevant rules, the Company appointed PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal controls in relation to financial reporting of the Company for 2016, for which a standard opinion internal control audit report was received.

The Company has regulated over the handling and dissemination of inside information to ensure that inside information will be kept confidential before proper approval and disclosure, and to ensure the disclosure of such relevant information to be in an effective way and on a consistent basis.

In 2016, the Company has complied with the applicable provisions of C.2 of Appendix 14 to the Listing Rules of Stock Exchange of Hong Kong Limited in respect of its risk management and internal controls, upholding the effectiveness of its risk management and internal controls in all material aspects.

General Meetings

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

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

Communications with Shareholders

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

Company Secretary

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

Disclosure of Information and Investor Relations

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

Other Matters

During the Reporting Period, the Company made an amendment to the Articles of Association of the Company, which has been approved in the second Extraordinary General Meeting of 2016 in the form of a Special Resolution. Please refer to the Circular of the Shareholders' Meeting dated 12 December 2016 and the Announcement of the voting results of the Shareholders' Meeting dated 29 December 2016 for further details.

Summary of General Meetings

Session of the meeting	Date of meeting	Query index of the designed website of resolution disclosure	Disclosure Date of resolutiong
The first extraordinary general meeting for 2016、The first extraordinaryA share class meeting for 2016、The first extraordinary H share class meeting for 2016	18 January 2016	www.hkexnews.hk www.sse.com.cn	18 January 2016 19 January 2016
Annual General Meeting of the Company for 2015	28 June 2016	www.hkexnews.hk www.sse.com.cn	28 June 2016 29 June 2016
The first extraordinary general meeting for 2016	29 December 2016	www.hkexnews.hk www.sse.com.cn	29 December 2016 30 December 2016

Report of the Directors

During the reporting period, the Company recorded a turnover of RMB79.078 billion, representing a 0.5% decline over the corresponding period of preceding year; the net profit attributable to the shareholders of the parent company was RMB2,018 million, a 3.6% decline over the corresponding period of preceding year.

Analysis of Principal Business

Relevant items in the income statement and the statement of cash flows and analysis of changes

Unit: 100 million; Currency: RMB

Items	Current period	Corresponding period of preceding year (restated)	Percentage of change (%)
Revenue	790.78	794.61	-0.5
Cost of sales	643.23	650.24	-1.1
Selling and Distribution expenses	21.52	22.59	-4.7
Administrative expenses	94.40	94.10	0.3
Finance cost	5.01	5.18	-3.3
Net cash flows generated from operating activities	99.49	83.59	19.0
Net cash flows generated from investing activities	-106.94	-31.39	N/A
Net cash flows generated from financing activities	-31.63	88.71	N/A
R&D expenditure	26.84	25.15	6.7

Note: The data of the same period in the preceding year has been restated pursuant to the requirements of consolidated statements of enterprises under common control.

Analysis of changes:

Compared with the corresponding period of preceding year, there was an increase in net cash outflows generated from investing activities, mainly because the reporting period saw an increase in the Company's time deposits that would last more than three months.

There were net cash outflows generated from financing activities, mainly because the Company issued convertible bonds and euro bonds over the corresponding period of preceding year.

Analysis of income and cost

During the reporting period, the Company achieved a turnover of RMB79.078 billion, virtually the same level as that of the corresponding period of preceding year; during the reporting period, the Company had a gross profit margin of 18.7%, representing a 0.5 percentage point increase over the corresponding period of preceding year.

Business Review of Major Business Segments

Unit: 100 million Currency: RMB

Major businesses by segment						
By segment	Revenue	Cost of sales	Gross profit margin (%)	YoY change in revenue (%)	YoY change in cost of sales (%)	YoY change in gross profit margin (% point)
New energy and environmental protection equipment	133.92	112.88	15.7	10.9	3.9	5.7
High efficiency and clean energy equipment	281.04	234.59	16.5	-5.4	-5.2	-0.3
Industrial equipment	237.69	185.33	22.0	-3.8	-4.9	0.9
Modern services	178.42	151.73	15.0	0.2	0.7	-0.4
Major businesses by geographic location						
Geographic location	Revenue	Cost of sales	Gross profit margin (%)	YoY change in revenue (%)	YoY change in cost of sales (%)	YoY change in gross profit margin (% point)
Mainland China	719.34	586.96	18.4	1.7	0.5	1.0
Other countries/jurisdiction	71.44	56.27	21.2	-18.4	-14.9	-3.3

Major customers

The Company's total sales revenue from its five largest customers was RMB7.376 billion during the reporting period, accounting for 9.3% of the total sales revenue of the Company.

Major suppliers

The Company's total purchases amount from its five largest suppliers was RMB7.406 billion during the reporting period, accounting for12.0% of the total purchases amount of the Company.

R&D expenditure

Unit: 100 million; Currency: RMB

R&D expenditure expensed in the current period	26.84
R&D expenditure capitalized in the current period	0
Total R&D expenditure	26.84
Percentage of total R&D expenditure to turnover (%)	3.4
Number of R&D staff	2,775
Number of R&D staff over total number of staff (%)	9.47
Percentage of R&D expenditure capitalized (%)	0

Description

New Energy and Environmental Protection Equipment

In respect of nuclear power nuclear island equipment products, the Company has officially delivered the world's first pressure vessel and metal reactor vessel internals for high-temperature gas-cooled reactors in March 2016, as part of a significant national technological project undertaken by the Company. The two pieces of equipment marked another major breakthrough for the manufacturing capabilities for nuclear power equipment of Shanghai Electric. In respect of wind power equipment, work centered on the requirement of being systematic and cutting cost: trial development of sample equipment has been completed for 2.0 MW-116m products, as the Company has realized the manufacturing of the 2MW series of power generation units that suits various working conditions; in respect of the operation and maintenance of wind power equipment, big data and cloud computing have been applied to building the Shanghai Electric Smart Cloud Platform for the Maintenance of Wind Power Equipment, to provide all-round monitoring, maintenance and optimization for wind turbines. In addition, work has been done to realize high-precision assessment of wind power resources, micro-site selection, and optimization of online control strategies, with a system built for the intelligent analysis and diagnosis of faults, all in a bid to improve the efficiency of operation and maintenance. In 2016, the project completed the remote access and demonstration operation for more than 20 wind farms.

High efficiency and clean energy equipment

In respect of high efficiency and clean energy equipment, following the successful commencement of operation of the Taizhou project in 2015, the Company has continued to accelerate the joint development of double-reheat power generation units (35MPa, 615℃/630℃/630℃), which enjoy an even higher efficiency. Furthermore, the Company has entered into cooperation agreements with multiple parties to jointly develop high-efficiency coal-fired power plants with an efficiency exceeding 50%. The project has taken place smoothly for the generation units with a capacity of 1.2 million KW, with the design completed and feeding started for the steam turbines and power generators, as work has also started to install boilers on site. In respect of nuclear power conventional island equipment, the Company has passed the project acceptance by the Science and Technology Commission of Shanghai Municipality, for the development of 1,905-mm long turbine blades of which the Company has independent intellectual property rights. Experts have also approved the design solution for the steam turbine generation units of Fangchenggang Hualong No. 1 Nuclear Power Project. In respect of gas turbines, the Company further enhanced its technical cooperation with the Italian firm Ansaldo in 2016, with more than 100 Shanghai Electric technicians sent to Italy for the special technical training on gas turbines. By far, work has started for the domestic manufacturing and key technology research of E and F-class gas turbines; software and hardware platforms have been built for the research, development and design of gas turbines, which encompass design software, methodology and principles, with a technical team also formed that is comprehensive in professionalism and outstanding in ability.

Industrial Equipment

In respect of elevators, complete elevator development has been finished and a type-test qualification certificate has been obtained for the LEHY-H 8m/s elevator developed by SMEC. Following that, the elevator has also won the bid for the Greenland Group project in 2016, representing the first of its kind that has made such a breakthrough.

Cash flows

Unit: 100 million; Currency: RMB

Item	Current period	Corresponding period of preceding year (restated)	Percentage of change (%)
Net cash flows generated from operating activities	99.49	83.59	19.0
Net cash flows generated from investing activities	-106.94	-31.39	N/A
Net cash flows generated from financing activities	-31.63	88.71	N/A

Analysis of changes:
Compared with the corresponding period of preceding year, there was an increase in net cash outflows generated from investing activities, mainly because the reporting period saw an increase in the Company's time deposits that would last more than three months.
There were net cash outflows generated from financing activities, mainly because the Company issued convertible bonds and euro bonds over the corresponding period of preceding year.

Analysis of assets and liabilities

Assets and liabilities

Unit: 100 million; Currency: RMB

Particulars	By the end of the current period	Proportion to total assets by the end of the current period (%)	By the end of the preceding period (restated)	Proportion to total assets by the end of the preceding period (%)	Percentage of change in amount compared with the end of the preceding period (%)
Inventories	202.52	11.5	215.88	13.0	-6.2
Trade receivables	271.39	15.5	260.21	15.7	4.3
Loans and lease receivables	101.04	5.8	81.08	4.9	24.6
Investments	97.95	5.6	80.72	4.9	21.3
Cash and cash equivalents	394.71	22.5	369.70	22.3	6.8
Trade payables	306.99	17.5	286.08	17.3	7.3
Other payables and accruals	565.20	32.2	524.19	31.7	7.8
Reserves	316.62	18.0	264.45	16.0	19.7

Analysis on operational information by industries

The Company is one of the largest comprehensive equipment manufacturing conglomerates. Information by industries in which our main businesses operate is set out as below:

New energy and environmental protection equipment: for nuclear power, 7 sets of power generation units were successfully connected to the power grid and started power generation during 2016 in China, and the total number of units in operation was 36 with the total power generation installed capacity of 33.50GW. 21 units with total installed capacity of 23.435GW are under construction. "Electric Power 13th Five-Year Plan for Electric Power Development" pointed towards insisting on safety in developing nuclear power, increasing the momentum for construction of self-developed nuclear power demonstration project, focusing on building core competitiveness, accelerating the construction of coastal nuclear power projects, exploring in-depth research and discussions as well as initial preparation work for inland nuclear power development. During the "13th Five-year Plan" period, China is expected to commence construction of nuclear power plant of more than 30GW and by 2020, total power generation installed capacity for nuclear power will reach 58GW. For wind power, increase in installed capacity for 2016 in China was 23.37 GW, representing a year-on-year decrease of 24%, and accumulated installed capacity reached 169GW. In 2016, the addition in number of offshore wind turbines in China was 154 units, with an installed capacity of 0.59GW, representing a year-on-year increase of 64%. Among them, Shanghai Electric has the largest share in terms of offshore wind power generation installed capacity addition, accounting for 82.5% of the total. In 2016, the accumulated installed capacity of offshore wind power in China reached 1.63GW. As for the environmental protection, with the deteriorating environmental conditions and the public's strong demand for improving the environment, China continues to step up its environmental protection magnitude with new measures including "10 Clauses for Clear Water Plan" (水十條), "10 Clauses for Clean Land Plan" (土十條) and "10 Clauses for Clean Air Plan" (大氣十條), as well as urban environmental infrastructure and other major projects to help.

High Efficiency and Clean Energy Equipment: According to the China Electricity Council statistics, in 2016, the average utilization hours of power generation units of 6000 kW or above in China were 3785 hours, representing a year-on-year decrease of 203 hours. Among which, the average utilization hours of thermal power generation units were 4165 hours, a year-on-year decrease of 199 hours. China will continue to implement thermal power planning and construction risk warning mechanism, red warning area must exercise strict control over planning and construction of captive thermal power plants, strict implementation of control measures such as "approval deferral" and "construction deferral", and continue to increase efforts over shutting down obsolete thermal power generation units. We will stick to a self-leading and innovation-driven principle, by strengthening the analysis on power industry and customer demand, to develop marketable products. We give full play to technological leading effect, and vigorously improve product quality, launching high-end environmental friendly thermal power equipment with features of "high-parameter, high-reliability, high-stability, low energy consumption, low emission and low pollution" on and on.

Industrial Equipment: In 2016, the number of elevators in use in China exceeded 4.5 million units. In recent years, the addition per year in number of new and upgraded elevators has maintained at more than 500,000 units. Due to the impact of the real estate market, the growth rate of the elevator machine demand will slow down for some time in the following period, but with the promotion of new urbanization strategy and the impact of "aging" population that goes on, the elevator industry will remain a steady growth trend. By the end of 2016, the elevator industry has more than 600 machine manufacturing enterprises. It is expected that the elevator industry competition will be more intense in the next few years. With the expanding trend overcapacity in the industry, the industry competition will lead to a development trend for consolidation into "big enterprises". In the field of aviation industry, it is expected that China will be the world's largest passenger aircraft buyers in the next 20 years. In 2016, we acquired 100% ownership of Broetje by acquiring TEC4AERO GmbH. Broetje is a global leading provider of aircraft manufacturing equipment and solutions. Its main products include automatic drilling and fastening equipment and assembling line composite parts processing equipment. Its business covers the whole process of aircraft structure manufacturing.

Modern Services: The modern services segment of the Company is mainly engaged in power plant engineering business and financial services providing support to the development of the Group's principal business. In 2016, by building on the national initiative of "One Belt, One Road", we targeted at more than 50 countries and regions along the "One Belt, One Road" as the principal markets of our power plant engineering business. We planned to establish overseas sales network presences in Malaysia, Turkey, Poland, Pakistan and Columbia, to actively accelerate the establishment of network sales outlets and achieve multi-region sales capability. Our power plant engineering business no longer focuses solely on thermal power business and instead we are exploring the markets of new energy and distributed energy. We also strived to move forward the integration between business and finance and further strengthened project investments and project financing. The newly established finance group is committed to becoming "the best model of financial business within global equipment manufacturing industry in alignment with situations in China" aiming at achieving three areas of transformation: from treasury as an execution arm only to treasury with management and planning functionality, from "merely as an Internal Bank" to "Value-added financial service platform", from "engagement in new business of isolated market" to "becoming a growth engine with engagement in business that adhered to main business".

Industry competition landscape and the development trend

Although there exists some cyclical and total quantitative factors, the root cause of contradictions and problems that China's economy is facing is structural imbalance, which results in poor circulation within the economy. It must be dealt with from the supply side and structural reform, making effort to achieve new dynamic equilibrium of supply and demand. At the end of 2016, the Central Economic Work conference suggested that the task for the economic and social development in 2017 is to eliminate overcapacity, excessive inventory and deleverage, reduce costs, and supplement deficiency in depth, and focus on prospering the real economy. It can be predicted that there will be more support and mitigation policies for businesses, particularly in manufacturing industry. The optimizing and upgrading of industry structure as well as corporate mergers and acquisitions and reorganization will become a normal phenomenon in the future.

According to the "Guiding Opinions on Energy work in 2017" issued by National Energy Administration, the national total energy consumption will be controlled within the limit of 4.4 billion tons of standard coal in 2017. Year-on-year change in energy consumption per unit of GDP should come down by more than 5.0%. The average coal consumption rate of coal-fired power plant will be 314 grams of standard coal/kWh power supply, representing a year-on-year decrease of 1 gram. In the field of ultra-low emission and energy conservation retrofit of coal-fired power plants, it is expected that the retrofit work for ultralow emission and energy conservation will respectively reach 80GW and 60GW approximately in 2017. In the same year, the capacity for new construction of wind power is 25GW, while addition in installed capacity will be 20GW. Regarding nuclear power, the addition of installed capacity is planned to be 6.41GW, and 8 units of equipment will commence construction within this year. China will develop solar energy with greater efforts, and will promote the photovoltaic as well as solar thermal power project construction actively. This year China will arrange to start new construction for a total capacity of 20GW while addition of installed capacity will be 18GW for this year.

As a large scale energy equipment manufacturing group, the Company will continue to strive to enhance our product competitiveness and enlarge our market shares. During the 13th Five-Year Plan period, leveraging on our existing industry base and technology advantages, we expect that the Group would have more opportunities in market development and a larger room for business development in respect of various aspects, including distributed power covering wind power and photovoltaic etc., nuclear power and energy saving, participation in construction of major energy projects, own research and development of gas turbine, retrofit of coal-fired power plants to achieve ultra-low emissions, etc.

Company development strategy

As a large-scale integrated equipment manufacturing group, we have both opportunities and challenges in the new round of economic restructuring and transformation. In internal and external environment, the market demand decreased rapidly due to the economic downturn. Industries that eliminate overcapacity such as heavy machinery, coal-fired power generation plant are still one of the main focuses of the national macroeconomic policies. A new round of global technological revolution and industry transformation is rising, multinational corporations are improving their strategic layout efforts in areas such as intelligent manufacturing and industrial internet, conquering the top spot in the global technological and industrial competition. "Produce Green" and "Green Production" have become our national 13th Five Year energy development direction which will promote rapid development in high efficiency and clean energy equipment as well as energy conservation and environmental protection industries.

We adhere to the strategic guideline of "valuing technology over assets", expanding new market size on the basis of "globalization", using intelligent manufacturing as a new lead of industry upgrading, inspiring the enterprise cultural soft power by craftsman spirit, proactively providing more efficient, more environmental friendly, and more economical energy and industrial equipment as well as comprehensive solutions to develop Shanghai Electric into a China-based multi-national corporation with international competitiveness and brand influence.

Our development strategies can be summarized as "one-four-three", which means one main theme, four innovations and three transformations. The main theme is the "transformation development driven by innovation". We need to further enhance innovative drivers, promoting transformation development by using innovation as our main driver, so as to enhance the Group's technological and competitive advantages. Four innovations include a comprehensive innovative system on the basis of "technological innovation as the core, industry innovation as the target, model innovation as the safeguard, mechanism innovation as key point". Innovation has become the main driver of our transformation development. The four innovations will become an organic whole entity on a basis of mutual promotion and concurrent development. In respect to the three transformations, the first transformation is to accelerate the transformation from provision of traditional energy equipment to high efficiency and clean energy equipment. On one hand, increase in proportion of overall design and supply of coal-fired power generation equipment, promoting the development of coal-fired power generation equipment towards higher capacity, higher efficiency and lower emission. On the other hand, accomplish the proprietary development of gas turbine technology, large-scale production, grow bigger and stronger our clean energy equipment business such as nuclear power, wind power and distributed energy. The second transformation is to accelerate the transformation from traditional manufacturing to intelligent manufacturing. We will, by making use of the opportunities coming from upgrade of manufacturing enterprises within the group - the enormous demand, important sectors and material bottle neck as a lead, accelerate the intelligent transformation and upgrade, promote the application of new models such as large-scale customized production, networking cooperative manufacturing, remote operation and repairs & maintenance service to form an applicable industry intelligent manufacturing system solution and drive the development of the industry chain as a whole towards intelligent transformation development. The third transformation is to accelerate the transformation from a mere manufacturing model to a "manufacturing + service" mode. Along the development of Big Data, Cloud Computing and Internet of Things, the boundaries for various industries become unclear which has led to a new trend of service oriented manufacturing industry development. We proactively promote the extension of manufacturing segment towards a high added value service segment, including the main contractor of power equipment engineering, BOT and intelligent data service, long term support service for gas turbines, remote operation and repairs & maintenance service for elevators, research and development designs in the intelligent manufacturing sector, system integration, finance leases.

Operation Plans

2017 is defined by Shanghai Electric as a year of "management consolidating and industry upgrading". We continue to lead the operation of the Company with the strategy of "adhering to the development theme of innovation and development, insisting on pushing ahead development with a direction towards high-end technology, asset-light business structure, group level centralized management and controls, simplified operation structure, as well as intelligent products" so as to enhance the overall strategic lead, continuously improve industry structure, constantly enhance management level, promote system innovation in a steady pace. Our operation target for 2017 is to maintain our healthy and steady development and to achieve an increase in operational income compared to 2016. By prioritizing the consolidation of management and the upgrade of the industry, we focus on having good performances on the following tasks:

Continue to maintain our healthy and steady development

Through enhancing our management, we will further improve the profitability of our principal business, return on assets, risk prevention, will improve management over receivables and inventories in particular, and cash flows generation. The businesses of the Company including nuclear power, wind power, thermal power, gas turbines, power transmission and distribution equipment, and elevator shall achieve new breakthroughs and enhance their competitiveness and profitability while maintaining a stable and healthy development.

Continue on management improvement

On the basis of management improvement work carried out in the past few years, the Company will focus on implementing, enhancing the foundation of management, solidifying improvement content and enhancing management efficiency in 2017. On one hand, the Company will accelerate the establishment of corporate service center. On the other hand, the Company will focus on the optimization of the functionality of the Company's headquarter, building up capability of newly established industrial groups, integrating the resources of subsidiaries, and standardizing the industrial groups and corporate structure.

Industry Improvement

In 2017, the Company will improve industry capability level through strategic leads, constructing a strategic research and strategic management system with a top-down approach, taking into account both internal and external environment changes with clear division of labour, so as to promote the reasonable layout and development of various large industry sectors of the Company. In the meantime, we will refine the management over companies acquired and their collaboration with the Company that follows, grasp the favorable opportunities emerged during the current global economic downturn and the lowered corporate valuation, actively and steadily make progress through mergers and acquisitions guided by the Group's strategic direction.

Pushing Ahead Development with a Direction Towards High-End Technology, Product Intellectualization

In 2017, the Company will, by starting a new round of long term technology planning amendment, compile and publish its "Product Improvement R&D Plan and Brand New Product R&D Plan". The Company will continue to accelerate the development of intelligent manufacturing, which focuses on intelligent design, intelligent products, intelligent management and intelligent service, and strictly control investment in fixed assets at the same time.

Promote "Craftsman Spirit", Enhance Quality Management

In 2017, the Company will, in line with the spirit of the Central Economic Work Conference and in earnest manner, enhance quality management, "enhancing three bases and four key points". The three bases include quality talent teams with emphasis on culture and system integration as well as execution capability, quality information and quality economic management. The four key points include the implementation of an operation on industrial product quality improvement, enhancement of service quality for equipment manufacturing industry, improvement of quality development evaluation and incentive system, on-going establishment of a quality brand image for "Shanghai Electric". In the same time, we will formulate a quality management quantifiable standard which directly reflects the results and effects of the quality management from the data collected.

Enhance System and Mechanism Innovation and Build a Talented Team

In 2017, the Company will accelerate the development and coverage of the incentive system, conduct a comprehensive evaluation over the incentive schemes and projects in implementation, and ensure the long term effectiveness of our incentive schemes. We will strengthen the building of science and technology talent teams, high-end manufacturing talent teams and professional talent teams. On one hand, we will increase the incentive magnitude for young science and technology talents, high-end manufacturing talents and professional talents, and, on the other hand, open up the career development paths for such talents and constantly motivate them for their eagerness, proactivity and creativity in their daily work.

Potential Risks

Market Risks

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

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

Overseas Business Risks

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

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

Exchange Rate Fluctuation Risks

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

Source of Funding and Indebtedness

As at 31 December 2016 the Group had an aggregate amount of bank and other borrowings and bonds of RMB14,555million（2015: RMB13,264 million）, representing an increase of RMB1,291 million as compared with that of the beginning of the year. Borrowings and bonds repayable by the Company within one year amounted to RMB2,411 million, representing an increase of RMB 63 million as compared with that of the beginning of the year. Borrowings and bonds repayable after one year amounted to RMB12,144 million, representing an increase of RMB 1,228 million as compared with that of the beginning of the year.

As at 31 December 2016, all unsecured bank borrowings within the bank and other borrowings of the Group, with the exception of unsecured bank borrowings of USD 7,134,000 in total (2015: USD 3,200,000), equivalent to RMB 49,491,000 (2015: RMB 20,780,000) and EUR 7,902,000 in total (2015: EUR 15,399,000), equivalent to RMB 57,772,000 (2015: RMB 109,259,000) and MYR 68,600,000 in total (2015: MYR 68,600,000), equivalent to RMB 106,512,000 (2015: RMB 103,860,000) and HKD 0 in total (2015: HKD 700,000,000), equivalent to RMB 0 (2015: RMB 586,460,000) and GBP 2,648,000 in total (2015: GBP 0), equivalent to RMB22,534,000 (2015: RMB 0), are denominated in Renminbi. The cash and cash equivalents of the Group are mainly in Renminbi.

As at 31 December 2016, gearing ratio of the Group, which represents the ratio of the sum of interest-bearing bank borrowings and other borrowings and bonds to the sum of total equity of the shareholders plus interest-bearing bank borrowings and other borrowings and bonds, was 20.16%, representing a decrease of 0.17 percentage points as compared with 20.33% at the beginning of the year.

Pledge of Assets

As at 31 December 2016, the bank deposits of the Group of RMB 750 million (2015: RMB 632 million) were pledged to banks for bank borrowings or credit facilities. In addition, certain real properties of the Group, with the net carrying value amounting to RMB 476 million as at 31 December 2016 (2015: RMB 341 million), were pledged for certain bank loans of the Group.

Events After the Date of Financial Statements

The Board did not recommend any payment of final dividend for the year 2016. Please refer to the paragraph headed "Proposals for profit distribution or appropriation from capital reserves to share capital" below for further details.

Contingent Liabilities

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

Capital Commitments

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

Use of Proceeds from Financing Activities and Capital Utilization Plan

Under the complicating economic conditions in the macro environment, we adhered to the scientific and cautious investment philosophy and maintain an appropriate investment scale. In March 2013, the Company completed the issue of corporate bonds of RMB2 billion by public offer. As of the end of 2016, the balance of outstanding corporate bonds not yet due for repayment was RMB1.6 billion. This sum was fully utilized to replenish the working capital of the Company. Use of the proceeds and utilization plan etc are in accordance with the issue document.

In February 2015, the Company completed the issue of A Share convertible corporate bonds amounting to RMB6 billion, and the net proceeds were used for the Iraq Wassit II Thermal

Power Plant EPC project, India SASAN Thermal Power Plant BTG project and Vietnam Vinh Tan II Coal-fired Power Plant EPC project and as the capital contribution to Shanghai Electric Leasing Co., Ltd.

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

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

None.

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

As audited by PricewaterhouseCoopers Zhong Tian LLP, the net profit of the parent company as set out in the financial statements prepared by the Company in accordance with PRC GAAP was RMB 1,906,204,000 for 2016, and undistributed profits at the beginning of 2016 was RMB 8,369,782,000. After a transfer to statutory surplus reserves of RMB 190,620,000, the distributable profits amounted to RMB 10,085,366,000. As audited by PricewaterhouseCoopers Zhong Tian LLP, the Company's net profit attributable to shareholders of the parent company as set out in the financial statements prepared by the Company in accordance with PRC GAAP was RMB 2,060,170,000 for 2016, and the net profit attributable to shareholders of the parent company as set out in the financial statements prepared by the Company in accordance with Hong Kong Financial Reporting Standards was RMB 2,017,843,000 for 2016.

As considered and approved by the Board of the Company, the Company proposed to acquire assets by issuance of shares as well as to raise supporting funds (the "Transaction"). The Transaction is still pending for submission to shareholders for review and discussion in shareholders' meeting. To ensure the successful implementation of the Transaction and for the long-term interest of the shareholders and the development of the Company, along with Article 17 and other regulations under the Measures for the Administration of Securities Issuance and Underwriting which provide that "if any profit distribution scheme and/or scheme on transfer of statutory surplus reserves to share capital of a listed company have neither been submitted to shareholders' meeting for voting nor implemented after approval in shareholders' meeting, the listed company shall offer its securities after the implementation of such schemes. Prior to the implementation of such schemes, the lead underwriter shall not undertake the offering of any securities by the listed company". After careful discussion, it was decided that the Company shall not make any distribution of profits or transfer of capital reserves to share capital for 2016.

Closure of Register of Members

The Company will separately notify shareholders about the date of the annual general meeting for the year 2016 as well as the corresponding period for closure of register of members.

Contract of Significance

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

Equity-linked Agreemen

A Share Convertible Corporate Bonds

In January 2015, CSRC approved the Company's proposed issuances of A share convertible corporate bonds in an aggregate sum of RMB6.0 billion. In February 2015, the Company completed issuing a total of 60,000,000 A share convertible corporate bonds with a nominal value of RMB100 each (the "Electric Convertible Bonds"), amounting to RMB6 billion in aggregate. The Electric Convertible Bonds were listed on the Shanghai Stock Exchange as from 16 February 2015 under the bond code of "113008". The initial conversion price of the Electric Convertible Bonds was RMB10.72 per A Share and the conversion price was adjusted from RMB10.72 per share to RMB10.66 per share from 2 July 2015 and further adjusted from RMB 10.66 per share to RMB 10.65 per share from 28 November 2016. The term of the Electric Convertible Bonds commences from 2 February 2015 and ends on 1 February 2021 and the conversion period commences from 3 August 2015 and ends on 1 February 2021. As at 31 December 2016, the Electric Convertible Bonds amounting to RMB 7,318,000 have been converted into 686,400 A shares. As at 31 December 2016, the unconverted Electric Convertible Bonds amounted to RMB5,992,682,000. For details, please refer to the announcements of the Company dated 20 January 2015, 28 January 2015, 11 February 2015, 25 June 2015, 27 July 2015 and 24 November 2016, and Note 41 to the consolidated financial statements of this report.

Assets Restructuring and Placing of A shares

The details of this transaction are set out in the section headed "Significant Events - Discloseable transaction and connected transaction" of this report, the announcements of the Company dated 14 November 2016 and 17 March 2017, and the circular of the Company dated 23 March 2017.

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

Donations

The Group actively performed its social responsibilities, and the total expenses of the Group for public welfare projects, charity donations, poverty supporting donations and education sponsorship in 2016 was RMB 5.550 million.

Compliance with relevant laws and regulations

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

Environmental policies and performance of the Company

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

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

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

During the reporting period, the Company has complied with the "Comply or Explain" provisions of Appendix 27 of Hong Kong Listing Rules "Guidance on Environment, Social and Governance Report". The Company will separately prepare the environment, social and governance report which will be separately published within three months after the publication of this report.

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

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

Reserves

Details of the movements in the reserves of the Company and the Group during the year were set out in note 45 to the financial statements and the consolidated statement of changes in equity.

Property, plant and equipment

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

Right of Directors to acquire shares and debentures

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

Sufficiency of Public float

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

Pre-emptive Rights Arrangement

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

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Significant Events

Equity interests in other listed companies held by the Company

Unit: Yuan Currency: RMB

No.	Stock abbreviation	Initial investment amount	Equity share (%)	Carrying amount as at the end of the period	Gain or loss during the reporting period	Changes in owners' equity during the reporting period	Account	Resource of shares
600642	Shenergy	2,800,000	0.06	15,849,000	0	(3,402,000)	Available-for-sale financial assets	Purchase
601328	BOCOM	9,122,809	0.01	34,916,826	0	(3,040,850)	Available-for-sale financial assets	Purchase
600000	SPDB	767,760	0.02	57,504,975	0	(1,203,409)	Available-for-sale financial assets	Purchase
600845	Baosight	4,912,000	0.48	61,916,400	0	(31,279,885)	Available-for-sale financial assets	Purchase
600610	Zhongyida	760,000	0.10	10,687,248	0	(1,760,616)	Available-for-sale financial assets	Purchase
600643	AJG	70,000	0.00	460,436	0	(62,331)	Available-for-sale financial assets	Purchase
600082	HiTech Develop	270,000	0.05	2,607,930	0	78,975	Available-for-sale financial assets	Purchase
600618	SCAC	1,240,008	0.03	4,943,092	0	(393,855)	Available-for-sale financial assets	Purchase
600633	Zhejiang Daily Media	7,471,992	0.37	77,393,184	0	(3,845,556)	Available-for-sale financial assets	Purchase
501	Wu Han Department Store Group Co., Ltd.A	353,609	0.03	2,912,423	0	(210,375)	Available-for-sale financial assets	Purchase
600665	Tande Co., Ltd.	1,399,200	0.09	4,205,520	0	(1,413,720)	Available-for-sale financial assets	Purchase
600027	HDPI A-share	234,000,016	0.76	371,250,025	0	(104,062,507)	Available-for-sale financial assets	Purchase
601229	Bank of Shanghai	958,970	0.02	32,013,539	0	23,290,926	Available-for-sale financial assets	Purchase
400059	Powerwise 5	33,180,000	0.21	59,605,500	0	19,819,125	Available-for-sale financial assets	Purchase
600909	Huaan Securities	6,410	0.00	12,550	0	4,605	Available-for-sale financial assets	Purchase
601375	Central China Securities	4,000	0.00	4,000	0	0	Available-for-sale financial assets	Purchase
300586	Malion New Materials	4,650	0.00	4,650	0	0	Available-for-sale financial assets	Purchase
600637	SVA Information Industry Co., Ltd.	82,800	0.00	667,382	0	438,436	Available-for-sale financial assets	Purchase
300287	Jiangzhong Pharmaceutical	3,685,902	0.00	3,082,000	(452,902)	0	Financial assets calculated by fair market value and changes recorded in current profits and losses	Purchase
600750	Beijing Philisense	1,853,238	0.00	1,190,000	(499,238)	0	Financial assets calculated by fair market value and changes recorded in current profits and losses	Purchase
合計：		302,943,364	/	741,226,680	(952,140)	(107,043,037)	/	/

The Company's wholly-owned subsidiary, Shanghai Electric Group Hong Kong Co., Ltd., increased shareholding in the Company's subsidiary Shanghai Mechanical & Electrical Industry Co., Ltd.("SMEI") by purchasing 3,650,434 B-shares (or 0.36% of total issued share capital of SMEI) through Shanghai Stock Exchange during the period from 3 July 2015 to 2 July 2016. Before the implementation of this increase of shareholding, the Company held 484,220,364 A shares and 1,287,375 B shares of SMEI, equal to 47.47% of total issued share capital of SMEI. After the implementation of this increase of shareholding, the Company and its subsidiaries together holds 484,220,364 A shares and 4,937,809 B shares, representing 47.83% of total issued share capital of SMEI.

Connected Transactions and Continuing Connected Transactions

According to the provisions of Hong Kong Listing Rules, the connected transactions and continuing connected transactions between the Company and its subsidiaries (the "Group") and connected persons for the year ended 31 December 2016 are disclosed in detail as follows.

Connected transactions

On 26 August 2016, the Board of the Company agreed to acquire 3.23% equity interest in Shanghai Electric Wind Power Equipment Co., Ltd. held by Shanghai Electric (Group) Corporation at the consideration of RMB33,611,000. The consideration for the acquisition of equity interest was determined based on the total equity of the shareholders of Shanghai Electric Wind Power Equipment Co., Ltd. assessed at RMB1,040,589,800 as of 30 June 2016. The transaction was completed during the reporting period.

On 26 August 2016, the Board of the Company agreed on the proposal: Shanghai Electric (Group) Corporation to entrust Shanghai Electric Group Finance Co., Ltd. to provide an interest-free loan of RMB800 million to Shanghai Electric Wind Power Equipment Co., Ltd, with the term of five years. The transaction had completed during the reporting period.

On 23 September 2016, the Board of the Company agreed for Shanghai Blower Works Co., Ltd. ("SBW"), a wholly-owned subsidiary of the Company, to dispose certain assets which were idle or unrealizable in short term to Shanghai Electric Development Co., Ltd ("SED"), a wholly-owned subsidiary of Shanghai Electric (Group) Corporation. The consideration for the abovementioned assets transfer was determined based on the total valuation assessed at RMB241,724,300 as confirmed by the assets valuation report issued by the qualified independent appraiser as of 30 September 2015 . The transaction was completed during the reporting period.

Continuing Connected Transactions

According to the provisions of the listing rules, the details of the continuing connected transactions of the Company and its subsidiaries ("Group") with connected persons as of 31 December 2016 are set forth below:

Connected Transactions with Shanghai Electric (Group) Corporation

Framework sales agreement

The Company entered into a framework sales agreement with SE Corporation on 30 October 2013, pursuant to which the Group agrees to provide electrical engineering products, *electrical equipment, and other related services to SE Corporation and its subsidiaries and associates (the "Parent Group"). Pursuant to the agreement, the annual cap of the relevant sales for the year ended 31 December 2016 was approved to be RMB 600,000,000.*

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

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

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

The actual sales to the Parent Group for the year ended 31 December 2016 was RMB 410,550,000.

Framework purchase agreement

The Company entered into a framework purchase agreement with SE Corporation on 30 October 2013, pursuant to which the Group agrees to purchase, on a nonexclusive basis, certain component parts, such as turbine blades, coupling, AC motor and emergency trip control cabinet, automatic instruments, other mechanical equipment and raw materials (including copper wires and insulation materials) from the Parent Group. Pursuant to the agreement, the annual cap of the relevant purchases for the year ended 31 December 2016 was approved to be RMB 1,800,000,000.

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

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

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

The actual purchase from the Parent Group for the year ended 31 December 2016 was RMB 425,480,000.

Framework financial services agreement

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

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

Continuing Connected Transactions (continued)

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

Framework deposit agreement

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

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

The actual daily balance of funds from the Parent Group for the year ended 31 December 2015 did not exceed the approved annual cap of RMB 7,500,000,000. Besides, the Parent Group received interest income of RMB 10,080,000 for the deposits from Finance Company for the year ended 31 December 2016.

Framework loan agreement

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

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

The actual daily balance of outstanding loans and discounted bills from the Parent Group in the year ended 31 December 2016 did not exceed the approved annual cap of RMB8,800,000,000. Besides, the Parent Group paid interest of RMB139,660,000, which was derived from loans and discounted bills, to Finance Company for the year ended 31 December 2016.

During the Second Extraordinary General Meeting of 2016 held on 29 December 2016, the shareholders of the Company have approved the continuing connected transactions contemplated under the Framework deposit agreement and Framework loan agreement with SE Corporation and annual caps for 2017 to 2019 by way of an ordinary resolution. Please refer to the circular of the Company dated 12 December 2016 for further details.

Framework guarantee agreement

On 26 February 2016, the Company entered into a framework guarantee agreement with SE Corporation. According to such agreement, Finance Company, a subsidiary of the Company, will provide guarantee services to the Parent Group through issuance of corporate guarantees and electronic bank acceptances. Pursuant to the agreement, the approved annual cap for the year ended 31 December 2016 was RMB873,000,000.

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

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

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

The actual guarantee services to the Parent Group did not exceed the approved annual cap of RMB873,000,000 in the year ended 31 December 2016.

Continuing connected transactions with Siemens

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

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

In October 2011, the Company applied to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the waiver from strict compliance with Rule 14A.35 (1) of the Hong Kong Listing Rules, in accordance with which, the Company would be required to enter into a written agreement with Siemens in respect of the renewal continuing connected transactions (the "Renewal CCT"). The waiver has been conditionally granted by the Stock Exchange on 4 November 2011, subject to and on the waiver conditions. On 8 December 2011, the board of directors approved the waiver of written framework agreement and the Renewal CCT. On 29 May 2012, the Independent Shareholders approved the waiver of written framework agreement and the Renewal CCT.

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

The company will continuously enter into written agreement for undated continuing connected transactions and the cap of the updated continuing connected transactions will be priced according to the following pricing strategy now and in the future.

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices;
- if there is no guide price provided by the government, prices should be that the Chinese government provided for the similar products and/or technology;
- or market price, which is considered the present market price of similar or same products and/or technology that independent third party provide according to the arm's length principle.
- the contract price between the group and Siemens is calculated according to the cost of relevant products and/or technology plus reasonable profits. The group and Siemens could consider the historical price of relevant transactions when setting price.

The actual purchases from the Siemens Group for the year ended 31 December 2016 was RMB 887,690,000.

Continuing Connected Transactions (continued)

Framework purchase agreement with Mitsubishi Electric

Mitsubishi Electric Corporation ("Mitsubishi Electric") holds more than 10% of the equity interest in Shanghai Mitsubishi Elevator Co., Ltd. ("SMEC"), being a subsidiary of the Company. Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. ("MESMEE") is held as to 40% by Shanghai Mechanical & Electrical Industry Co., Ltd., a 47.83% owned subsidiary of the Company, 40% by Mitsubishi Electric and 20% by Mitsubishi Electric Building Techno-service Co., Ltd., a wholly-owned subsidiary of Mitsubishi Electric.

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

Pursuant to the agreement, the annual caps of the relevant purchases for the two years ended 31 December 2016 were estimated to be RMB 4,000,000,000 and RMB 5,000,000,000, respectively. The price of products to be purchased from MESMEE is determined principally at arm's length by commercial negotiations in accordance with general principles of fairness and reasonableness with reference to the market price.
The Directors of the Company believe that the revisions of the annual caps are based on normal commercial terms, and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The term of the framework purchase agreement is two years commencing on 28 March 2015, renewable at the option of the Company by giving three months' notice prior to the expiry of the agreement.

The actual purchases from MESMEE by the Group for the year ended 31 December 2016 were RMB2,564,620,000.

At the Second Extraordinary General Meeting of 2016 held on 29 December 2016, the shareholders of the Company have approved the continuing connected transactions contemplated under the framework purchase agreement with MESMEE and annual caps for 2017 to 2019 by way of an ordinary resolution. Please refer to the circular of the Company dated 12 December 2016 for further details.

Framework sales agreement with SMEPC

State Grid Shanghai Municipal Electric Power Company

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

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

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

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

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

The sales of the Group to the SMEPC Group was RMB 3,940,750,000 for the year ended 31 December 2016.

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

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

The auditors of the Company have provided a letter to the board of directors of the Company confirming:

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

Discloseable and Connected Transaction

Assets Restructuring and Placing of A Shares

On 14 November 2016, this assets reorganization and A shares placement was approved at the 37th meeting of the 4th session of Board of the Company. According to the Notice on Amending the Implementation Rules for Non-public Issuance of Listed Companies (《關於修改<上市公司非公開發行股票實施細則>的決定》) and relevant requirements issued by China Securities Regulatory Commission in February 2017, the Company revised the original A Share Placing Plan. On 17 March 2017, the revised relevant resolutions of assets reorganization and A shares placement (hereinafter referred to as the "Transaction") was considered and approved at the 42nd meeting of the 4th session of Board of the Company. Up to the date of this report, the Transaction has not yet gone through the review procedures required at the Company's general meeting and H Share Class Meeting.

On 14 November 2016, the Company entered into the Agreement in relation to Assets Acquisition by Issuance of Shares (《發行股份購買資產協議》) with Shanghai Electric (Group) Corporation, the controlling shareholder of the Company ("SEC"), pursuant to which the Company proposed to issue 877,918,006 A Shares as consideration shares to SEC at the issue price of RMB7.55 per share to acquire its 47.18% domestic shares in Shanghai Prime Machinery Company Limited (hereinafter referred to as "Shanghai Prime"), 50.10% equity interest in Thales Saic Transportation System Limited Company, 100% equity interest in Shanghai Electric Group Property Company Limited and the land use rights of 26 pieces of lands and related ancillary buildings held by SEC. With the exception of Shanghai Prime, the consideration for the aforesaid incoming assets was determined after arm's length negotiations based on the valuation of such assets as at Valuation Benchmark Date as confirmed in the assets valuation reports issued by the qualified PRC valuers. The consideration for Shanghai Prime was determined based on the arithmetic average of the daily weighted average stock price of H shares of Shanghai Prime for 30 trading days prior to the signing date of the Share Transfer Agreement (i.e. 14 November 2016) multiplying the number of domestic shares in Shanghai Prime held by SEC. This assets reorganization shall enhance the assets quality and overall strength of the Company, increase the high-quality resources reserves of listed companies, and facilitate the vertical and horizontal business extension of listed companies.

On 14 November 2016 and 17 March 2017, the Company entered into the Share Subscription Agreements and Supplemental Agreements to Share Subscription Agreement with Shanghai Electric (Group) Corporation and Shanghai Guosheng Group Investment Company Limited, respectively. The Company proposed to issue and place additional A shares to no more than 10 specific investors, including Shanghai Electric (Group) Corporation and Shanghai Guosheng Group Investment Company Limited, raising funds not exceeding RMB 3 billion. The result of the placing of A Shares, whether successful or not, shall not affect the implementation of the transaction contemplated under the Agreement in relation to Assets Acquisition by Issuance of Shares. The funds to be raised by A shares placement are intended to be invested in the following projects: RMB1.055 billion shall be used for the Emerging Industrial Park Development Project at Gonghe Xin Road, RMB0.226 billion shall be used for the Innovative Industry Park Reformation Project at Beinei Road, RMB0.328 billion shall be used for the Technology Innovative Park Reformation Project at Jinshajiang Branch Road, RMB1.166 billion shall be used for the Industrial Research, Development and Design and High-end Equipment Manufacturing Base Construction Project at Jungong Road, RMB0.225 billion shall be used for relevant

tax fees and other expenses of the Transactions. This A shares placement could further promote the business development of the Company, and effectively enhancing the integrated performance of this assets reorganization.

As the highest applicable percentage ratio among the aggregated applicable ratios of transactions under this Reorganization Agreement and previous transactions was more than 25% but less than 100%, it constituted a major transaction under the Listing Rules in Hong Kong. Upon the approval of the Hong Kong Stock Exchange with the alternative size test, the highest applicable percentage ratio among the applicable ratios of transactions under this Reorganization Agreement and previous transactions was more than 5% but less than 25%, thus constituted a discloseable transaction under the Listing Rules. Since SEC is a connected person of the Company, the Transaction also constituted a connected transaction under the Listing Rules in Hong Kong.

The Reorganization Agreement and the Share Subscription Agreement were subject to satisfaction of certain conditions precedent. During the reporting period, such matter was still in progress. For detailed information, please refer to the announcement dated 14 November 2016, 17 March 2017 and the circular published on 23 March 2017 by the Company.

Significant related party transactions

The Company confirms that it has complied with the requirements in accordance with Chapter 14A of the Hong Kong Listing Rules in respect of the above connected transactions. Save as disclosed above, significant related party transactions which do not constitute the connected transactions under the Hong Kong Listing Rules during the year have been disclosed in note 52 to the annual financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

Appointment, removal and remuneration of auditors

Particulars of change in auditors in the preceding three years	2016	2015	2014
Name of the PRC auditor	PricewaterhouseCoopers Zhong Tian LLP	PricewaterhouseCoopers Zhong Tian LLP	PricewaterhouseCoopers Zhong Tian LLP
Name of the international auditor	PricewaterhouseCoopers LLP	PricewaterhouseCoopers LLP	PricewaterhouseCoopers LLP

Unit: '000; Currency: RMB

Services provided by auditors	Remuneration
Removal of accounting firm:	No
Name of the PRC auditor	PricewaterhouseCoopers Zhong Tian LLP
Name of the international auditor	PricewaterhouseCoopers LLP
Number of years of continued services provided by auditors	3 Years
Annual audit for the Company	9,578
Statutory audit for subsidiaries	10,622
Total	20,200

	Firm Name	Remuneration
Auditors for Internal controls review	PricewaterhouseCoopers Zhong Tian LLP	1,980

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Shanghai Electric Group Company Limited

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

Opinion

What we have audited

The consolidated financial statements of Shanghai Electric Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 207, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Revenue Recognition
- Provision for Onerous Contracts

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Revenue Recognition	
Referring to note 2.29, note 2.31 and note 6 to the consolidated financial statements. The Group's revenue is recognised when it is probable that the economic benefits will flow to the Group, when the revenue can be measured reliably and the specific revenue recognition criteria have been met for each type of revenue of the Group. In 2016, revenue of the Group was amounted to RMB79,078 million, among which revenue from sales of goods represents approximate 79% and revenue from construction contracts represents 12%. We focused on revenue recognition related to sales of goods and construction contracts. The focus on the revenue from sales of goods is due to its huge volume. There could be potential misstatement in relation to whether these transactions are recognised in the proper reporting period.	For sales of goods, we have gained an understanding, evaluated the design and tested the operating effectiveness of the key controls in respect of the Group's sales transactions from customer order's approval to sales recording. We reviewed the contracts on a sampling basis and discussed with the management to understand and evaluate the revenue recognition policy of the Group by understanding and evaluating the significant risks and rewards transfer points of sales of goods. Furthermore, we tested revenue of sales of goods using sampling techniques by performing below procedures: • examined the relevant supporting documents including sales contracts, customer orders, invoices, goods delivery notes, cutomers' acceptance notes, etc. • tested sales transactions recorded before and after the balance sheet date by tracing to the supporting documents including the relevant customers' acceptance notes, etc. to assess whether revenue was recognised in the correct reporting period.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Revenue Recognition(continued)	
The focus on the revenue recognised under construction contracts is due to the significant estimations and judgements involved. The Group uses percentage of completion method to account for the revenue from construction contracts by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contracts. Significant management estimations and judgements are required in the estimation of the cost to complete, including the assessment of the remaining contingencies that a project is or could be facing until delivery.	For revenue recognised under construction contracts, we have gained an understanding, evaluated the design and tested the operating effectiveness of the key controls in respect of the Group's process to record contract costs and contract revenue, including the controls related to recording of the actual cost incurred and the estimation of the total contract costs. We understood and compared the actual cost of the completed projects to management's prior estimation, using the sampling techniques, to assess management's experience and capability on making such accounting estimates. We obtained the management prepared construction contracts revenue and cost calculation sheet, agreed the total amount to the sales and cost of sales ledger, and checked the mathematical accuracy of the calculation. We tested the actual costs incurred using the sampling techniques by performing below procedures: • examined the actual cost incurred by checking the supporting documents including the contracts, invoices, equipments acceptance documents, progress confirmation slips, etc. • tested the actual cost incurred before and after the balance sheet date by tracing to the supporting documents including the equipments acceptance documents, progress confirmation slips, etc., to assess whether the actual cost incurred was recognised in the correct reporting period. Furthermore, we tested the estimated total cost using sampling techniques by performing below procedures: • checked the component of the estimated total cost to the supporting documents including the purchase contracts etc., to identify any missed cost components. • assessed the reasonableness of the estimated total cost via discussion with project engineers and reviewing the supporting documents. Based on the work performed, we noted that the Group's revenue recognition for sales of goods and construction contracts were consistent with its accounting policy.

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Provision for Onerous Contracts	
Referring to note 2.28 and note 40 to the consolidated financial statements Macroeconomic factor, such as commodity price, and industry competition can have a significant impact on the profitability of the contracts. Management assessed at balance sheet date on whether the unavoidable costs of meeting contractual obligations have exceeded the economic benefits expected to be received, and made provision for these onerous contracts based on the estimated least net cost of exiting from the contracts. In 2016, the impact of the provision for onerous contracts on the profit and loss was amounted to RMB 958 million. We focus on this area due to the significant estimations and judgements involved in the estimation of the unavoidable costs.	We have gained an understanding, evaluated the design and tested the operating effectiveness of management's key controls over the estimated unavoidable cost of the contracts. We obtained the management's onerous contract schedule and tested the mathematical accuracy of the schedule. We tested the unavoidable contract cost using sampling techniques by performing below procedures: • checked the component of the contract cost to the supporting documents including the purchase contracts etc., to identify any missed cost components. • assessed the reasonableness of the contract cost via discussion with project engineers of the Group and reviewing the supporting documents. • assessed the reasonableness of the contract cost via comparing the contract cost with the actual total cost of similar projects. Based on the work we performed, we noted that the provision for onerous contracts were supported by available information.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of disclosure requirements of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 responsible for overseeing the Group's financial reporting process.

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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 HKSAs, we exercise professional judgment 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.

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 to 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.

The engagement partner on the audit resulting in this independent auditor's report is Jack Li.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 March 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
			(Restated, Note 49)
Revenue	6	79,078,361	79,460,611
Cost of sales	8	(64,322,885)	(65,024,144)
Gross profit		14,755,476	14,436,467
Other income and other gains, net	7	1,814,292	3,199,663
Distribution expenses	8	(2,151,522)	(2,258,711)
Administrative expenses	8	(9,439,644)	(9,409,870)
Operating Profit		4,978,602	5,967,549
Finance cost	10	(500,674)	(517,581)
Share of profits of investments accounted for using the equity method :			
Joint ventures	20	206,617	15,682
Associates	21	589,917	534,118
Profit before income tax		5,274,462	5,999,768
Income tax expense	11	(1,113,093)	(1,298,129)
Profit for the year		4,161,369	4,701,639
Profit attributable to:			
Owners of the Company	12	2,017,843	2,093,314
Non-controlling interests		2,143,526	2,608,325
		4,161,369	4,701,639
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE YEAR			
Basic and diluted earnings per share			
From profit for the year	12	15.24cents	15.92cents

The notes on pages 80 to 207 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December	
	2016 RMB'000	**2015 RMB'000**
		(Restated, Note 49)
Profit for the year	4,161,369	4,701,639
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Change in fair value of available-for-sale financial assets	58,513	410,544
Cash flow hedges	17,890	(19,618)
Currency translation differences	60,966	55,596
Others	584	(367)
	137,953	446,155
Items that will not be reclassified subsequently to profit or loss		
Remeasurements losses of defined benefit obligations	-	(7,181)
Other comprehensive income for the year, net of tax	137,953	438,974
Total comprehensive income for the year	4,299,322	5,140,613
Attributable to:		
– Owners of the Company	2,132,663	2,429,017
– Non-controlling interests	2,166,659	2,711,596
	4,299,322	5,140,613

The notes on pages 80 to 207 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

	Notes	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000 (Restated, Note 49)
Assets			
Non-current assets			
Property, plant and equipment	14	12,989,838	12,393,484
Investment properties	15	353,969	379,455
Prepaid land lease payments	16	4,218,830	1,750,690
Goodwill	17	1,136,011	189,151
Intangible assets	18	1,354,462	1,007,526
Investments in joint ventures	20	2,808,979	2,920,691
Investments in associates	21	6,270,879	4,757,306
Other investments	23	1,740,936	1,720,767
Deferred income tax assets	24	2,897,838	2,911,443
Loans and lease receivables	22	7,974,836	7,141,055
Other non-current assets		103,234	175,718
Total non-current assets		41,849,812	35,347,286
Current assets			
Inventories	26	20,252,110	21,587,556
Construction contracts	27	4,631,149	2,885,697
Trade receivables	28	27,138,909	26,021,351
Loans and lease receivables	22	10,103,686	8,108,197
Discounted bills receivable	29	189,052	365,953
Bills receivable	30	6,653,165	6,726,313
Prepayments, deposits and other receivables	31	10,895,376	10,580,776
Investments	32	9,795,118	8,072,160
Derivative financial instruments	33	707,358	664,805
Due from the Central Bank*	34	3,197,369	3,063,635
Restricted deposits	34	749,901	632,092
Cash and bank	34	39,470,906	36,969,895
Assets of disposal group classified as held for sale	25	-	4,442,156
Total current assets		133,784,099	130,120,586
Total assets		175,633,911	165,467,872

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2016

	Notes	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
			(Restated, Note 49)
Equity and liabilities			
Liabilities			
Non-current liabilities			
Bonds	41	11,148,377	10,792,803
Interest-bearing bank and other borrowings	39	995,994	122,729
Provisions	40	133,437	148,988
Government grants		711,999	660,933
Other non-current liabilities	42	1,623,355	935,950
Deferred income tax liabilities	24	312,927	282,439
Total non-current liabilities		14,926,089	12,943,842
Current liabilities			
Trade payables	35	30,699,455	28,607,973
Bills payable	36	5,913,034	3,439,412
Other payables and accruals	37	56,519,986	52,418,583
Derivative financial instruments	33	26,788	25,507
Customer deposits	38	2,921,509	5,704,331
Interest-bearing bank and other borrowings	39	2,410,723	1,947,968
Tax payable		855,791	1,382,553
Provisions	40	3,713,405	3,257,222
Liabilities of disposal group classified as held-for-sale	25	-	3,752,429
Total current liabilities		103,060,691	100,535,978
Total liabilities		117,986,780	113,479,820

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2016

	Notes	As at 31 December	
		2016 RMB'000	2015 RMB'000
			(Restated, Note 49)
Equity			
Equity attributable to owners of the Company			
Share capital	43	13,431,156	12,824,305
Reserves	44	31,661,598	26,444,777
Retained earnings-proposed final dividend		-	-
		45,092,754	39,269,082
Non-controlling interests		12,554,377	12,718,970
Total equity		57,647,131	51,988,052
Total equity and liabilities		175,633,911	165,467,872

The notes on pages 80 to 207 are an integral part of these consolidated financial statements.

The financial statements on pages 71 to 207 were approved by the Board of Directors on 17 March 2017 and were signed on its behalf.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Attributable to owners of the Company												
		Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Hedging revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Banlance at 1 January 2016		12,824,305	7,655,046	(2,352,526)	4,559,911	(17,890)	988,378	52,760	(18,109)	15,577,207	-	39,269,082	12,718,970	51,988,052
Profit for the year		-	-	-	-	-	-	-	-	2,017,843	-	2,017,843	2,143,526	4,161,369
Other comprehensive income:														
Changes in fair value of available														
for- sale investments, net of tax		-	-	-	-	-	35,473	-	-	-	-	35,473	23,040	58,513
Cash flow hedges, net of tax		-	-	-	-	17,890	-	-	-	-	-	17,890	-	17,890
Currency translation differences		-	-	-	-	-	-	-	60,873	-	-	60,873	93	60,966
Others		-	584	-	-	-	-	-	-	-	-	584	-	584
Total comprehensive income		-	584	-	-	17,890	35,473	-	60,873	2,017,843	-	2,132,663	2,166,659	4,299,322
Convertible bond - equity component		8	72	-	-	-	-	-	-	-	-	80	-	80
Issue of ordinary shares related to														
business combination under														
common control		606,843	2,478,317	-	-	-	-	-	-	-	-	3,085,160	-	3,085,160
Disposal of subsidiaries		-	563,368	-	-	-	-	-	-	-	-	563,368	(133,685)	429,683
Other change of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(668,918)	(668,918)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(1,533,307)	(1,533,307)
Transfer from retained earnings		-	-	-	190,620	-	-	-	-	(190,620)	-	-	-	-
Appropriation to general risk reserve		-	-	-	256,590	-	-	-	-	(256,590)	-	-	-	-
Others		-	42,401	-	-	-	-	-	-	-	-	42,401	4,658	47,059
At 31 December 2016		13,431,156	10,739,788	(2,352,526)	5,007,121	-	1,023,851	52,760	42,764	17,147,840	-	45,092,754	12,554,377	57,647,131

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

		Attributable to owners of the Company												
	Note	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Hedging revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2014		12,823,627	5,236,750	(2,352,526)	4,558,889	1,729	667,517	52,760	(77,386)	12,571,901	753,132	34,236,393	11,188,676	45,425,069
Business combination under common control		-	1,432,582	-	-	-	845	-	-	1,108,712	-	2,542,139	373,284	2,915,423
Balance at 1 January 2015		12,823,627	6,669,332	(2,352,526)	4,558,889	1,729	668,362	52,760	(77,386)	13,680,613	753,132	36,778,532	11,561,960	48,340,492
Profit for the year		-	-	-	-	-	-	-	-	2,093,314	-	2,093,314	2,608,325	4,701,639
Other comprehensive income														
Changes in fair value of available for- sale investments, net of tax		-	-	-	-	-	320,016	-	-	-	-	320,016	90,528	410,544
Cash flow hedges, net of tax		-	-	-	-	(19,619)	-	-	-	-	-	(19,619)	-	(19,619)
Currency translation differences		-	-	-	-	-	-	-	39,096	-	-	39,096	16,500	55,596
Others		-	(3,790)	-	-	-	-	-	-	-	-	(3,790)	(3,757)	(7,547)
Total comprehensive income		-	(3,790)	-	-	(19,619)	320,016	-	39,096	2,093,314	-	2,429,017	2,711,596	5,140,613
Addition of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	147,190	147,190
Convertible bond - equity component		678	1,214,919	-	-	-	-	-	-	-	-	1,215,597	-	1,215,597
Compensation from the ultimate holding company		-	192,806	-	-	-	-	-	-	-	-	192,806	211,569	404,375
Change of non-controlling interests		-	(33,300)	-	-	-	-	-	20,181	(20,300)	-	(33,419)	(373,756)	(407,175)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(1,576,986)	(1,576,986)
Final 2014 dividend declared	13	-	-	-	-	-	-	-	-	-	(753,132)	(753,132)	-	(753,132)
Proposed final 2015 dividend	13	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution to original shareholders under common control		-	-	-	-	-	-	-	-	(207,421)	-	(207,421)	-	(207,421)
Transfer from retained earnings		-	-	-	1,022	-	-	-	-	(1,022)	-	-	-	-
Business combination without compensation under common control		-	(125,711)	-	-	-	-	-	-	-	-	(125,711)	-	(125,711)
Merge Shanghai Cyeco Environmental Technology Co., Ltd. under common control		-	(198,932)	-	-	-	-	-	-	-	-	(198,932)	-	(198,932)
Others		-	(60,278)	-	-	-	-	-	-	32,023	-	(28,255)	37,397	9,142
At 31 December 2015		12,824,305	7,655,046	(2,352,526)	4,559,911	(17,890)	988,378	52,760	(18,109)	15,577,207	-	39,269,082	12,718,970	51,988,052

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000 (Restated, Note 49)
Cash flows from operating activities			
Cash generated from operations	45	11,452,073	10,173,520
Income tax paid		(1,502,684)	(1,814,967)
Net cash generated from operating activities		9,949,389	8,358,553
Cash flows from investing activities			
Interest received		645,008	1,045,367
Finance lease income		729,593	440,167
Dividends received from joint ventures		380	380
Dividends received from associates		629,002	526,866
Dividends received from investments		172,002	85,486
Purchases of items of property, plant and equipment		(1,415,363)	(1,148,972)
Purchases of investment properties		(30)	(99,522)
Realised fair value gains on financial assets at fair value through profit or loss		13,955	125,590
Prepaid land lease payments		(27,089)	(93,397)
Proceeds from disposal of items of property, plant and equipment		181,212	378,135
Disposal of subsidiaries		139,706	(20,656)
Acquisition of subsidiaries, net of cash		(1,181,961)	26,138
Capital injection in joint ventures		(41,509)	-
Capital injection in associates		(565,088)	(401,018)
Proceeds from disposal of association		236,698	-
Decrease in non-current other investments		112,890	776,219
Purchases of other intangible assets		(42,689)	(74,777)
Proceeds from disposal of other intangible assets		4,670	20,296
Proceeds from disposal of prepaid land lease payments		1,694	6,353
Acquisition of non-controlling interests		(56,420)	(445,354)
Acquisition of other non-current assets		(21,164)	(48,965)
Increase in restricted deposits		(117,809)	(4,087)
(Increase)/decrease in non-restricted time deposits with original maturity of over three months when acquired		(6,301,464)	2,721,253
Increase in loans and lease receivables		(2,090,349)	(4,520,347)
Decrease/(increase) in discounted bills receivable		181,593	(185,149)
(Increase)/decrease in an amount due from the Central Bank		(133,734)	1,181,338
Increase in reverse repurchase agreements		(1,722,900)	(3,378,340)
Increase in current investments		(20,066)	(33,076)
Others		(4,841)	(18,878)
Net cash flows used in investing activities		(10,694,073)	(3,138,950)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000 (Restated, Note 49)
Cash flows from financing activities		
Capital injection by non-controlling interests	363,477	132,000
Issue of bank and other loans	4,654,180	3,126,511
Repayments of bank and other loans	(2,518,846)	(5,858,290)
Bond interest paid	(436,506)	(96,400)
Issue of bonds	-	10,091,220
Dividends paid to non-controlling interests	(1,621,470)	(1,513,048)
Dividends paid to owners of the Company	-	(753,132)
(Decrease)/increase in customer deposits	(2,782,822)	1,624,944
Interest paid	(181,327)	(189,203)
Compensation from the ultimate holding company	-	404,375
Cash received from the ultimate holding company for the repayment of the loan of Goss International Corporation ("Goss International")	-	1,402,796
Others	(640,000)	499,502
Net cash flows generated (used in)/from financing activities	(3,163,314)	8,871,275
Net (decrease)/increase in cash and cash equivalents	(3,907,998)	14,090,878
Cash and cash equivalents at beginning of year	33,594,058	19,365,529
Effect of foreign exchange rate changes, net	107,545	137,651
Cash and cash equivalents at end of year	29,793,605	33,594,058
Analysis of balances of cash and cash equivalents		
Cash and bank as stated in the consolidated balance sheet	39,470,906	36,964,303
Less: non-restricted time deposits with original maturity of over three months when acquired	(9,677,301)	(3,375,837)
Add: cash and cash equivalents in assets of disposal group classified as held-for-sale	-	5,592
Cash and cash equivalents as stated in the consolidated statement of cash flows	29,793,605	33,594,058

The notes on pages 80 to 207 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1.1 Basis of preparation

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 Changes in accounting policy and disclosures

(a)New and amended standards adopted by the group

The following amendments to standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11;
- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38;
- Annual improvements to HKFRSs 2012 – 2014 cycle; and
- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b)New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

HKFRS 9, 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group is in the process of making an assessment on the impact of HKFRS 9.

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

HKFRS 16, 'Leases' will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The new standard is mandatory for financial years commencing on or after 1 January 2019 and earlier application is permitted subject to the entity adopting HKFRS 15 'Revenue from contracts with customers' at the same time. The Group is in the process of making an assessment on the impact of HKFRS 16.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUBSIDIARIES

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

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

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

(a) Business combinations

Business combination under common control

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUBSIDIARIES (CONTINUED)

(a) Business combinations (continued)

Business combination not under common control

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUBSIDIARIES (CONTINUED)

(a) Business combinations (continued)

Business combination not under common control (continued)

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

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

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

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

(c) Disposal of subsidiaries

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

2.3 SEPARATE FINANCIAL STATEMENTS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 ASSOCIATES

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

The group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

2.5 JOINT ARRANGEMENTS

The group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 JOINT ARRANGEMENTS(CONTINUED)

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. The group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

2.6 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 SEGMENT REPORTING

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

2.8 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

(c) Group companies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(d) Disposal of foreign operation and partial disposal

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

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

2.9 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

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

2.10 INVESTMENT PROPERTY

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

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

2.11 INTANGIBLE ASSETS

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

(a) Goodwill

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 INTANGIBLE ASSETS (CONTINUED)

(b) Patents and licences

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

(c) Technology know-how

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

(d) Concession intangible assets

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

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

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

(e) Research and development costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 FINANCIAL ASSETS

2.14.1 Classification

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

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

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (Notes 2.20), including trade receivables, loans and lease receivables, bills receivable and due from Central Bank, 'cash and cash equivalents' (Note 2.21), and 'restricted deposits' in the consolidated balance sheet.

(c) Available-for-sale financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 FINANCIAL ASSETS (CONTINUED)

2.14.2 Recognition and measurement

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

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

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

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

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

2.14.3 Derecognition of financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 FINANCIAL ASSETS (CONTINUED)

2.14.4 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increase and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 FINANCIAL LIABILITIES

2.15.1 Initial recognition and measurement

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

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

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

2.15.2 Subsequent measurement

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

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

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

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

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

(b) Loans and borrowings

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 FINANCIAL LIABILITIES (CONTINUED)

2.15.2 Subsequent measurement (continued)

(c) Financial guarantee contracts

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

2.15.3 Derecognition of financial liabilities

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

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

2.16 OFFSETTING OF FINANCIAL INSTRUMENTS

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

2.17 REVERSE REPURCHASE TRANSACTIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

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

(a) Fair value hedge

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(b) Cash flow hedge

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

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the statement of profit or loss within 'finance income/expenses'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss within 'other gains - net'.

(c) Net investment hedge

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

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

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

2.19 INVENTORIES

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

2.20 TRADE AND OTHER RECEIVABLES

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 CASH AND CASH EQUIVALENTS

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

2.22 SHARE CAPITAL

Ordinary shares are classified as equity.

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

2.23 TRADE PAYABLES

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

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

2.24 BORROWINGS

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

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

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

2.25 BORROWING COSTS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. Summary of significant accounting policies (continued)

2.26 CURRENT AND DEFERRED INCOME TAX

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

2. Summary of significant accounting policies (continued)

2.27 EMPLOYEE BENEFITS

(a) Pension obligations

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

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

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

Past-service costs are recognised immediately in the consolidated income statement. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

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

(b) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 PROVISIONS

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

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

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

2.29 REVENUE RECOGNITION

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

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

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

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

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

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

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

2.30 GOVERNMENT GRANTS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 CONSTRUCTION CONTRACTS

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

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

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

2.32 CONTRACTS FOR SERVICES

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

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

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

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

2.33 INTEREST INCOME

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.34 LEASES

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

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

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

2.35 DIVIDEND DISTRIBUTION

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

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

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

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk

(i) Foreign exchange risk

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

The Management has established a policy that requires the Group to manage the foreign currency risk of its functional currency. The Group's treasury function at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Group may consider to enter into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

At 31 December 2016, if RMB Yuan had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been RMB485,228,000 (2015: RMB409,574,000) higher/lower. At 31 December 2016, If RMB Yuan had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been RMB319,885,000 (2015: RMB245,079,000) lower/higher. At 31 December 2016, If RMB Yuan had weakened/strengthened by 10% against the JPY with all other variables held constant, post-tax profit for the year would have been RMB43,050,000 (2015: RMB11,308,000)lower/higher.

(ii) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments and trust product classified as investments at fair value through profit or loss and available-for-sale investments (Notes 23 and 32) as at 31 December 2016. The Group's listed investments are listed on the Shenzhen Stock Exchange ("SZSE") , the Shanghai Stock Exchange ("SHSE") and National Equities Exchange and Quatations ("NEEQ") are valued at quoted market prices at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS(CONTINUED)

(a) Market risk (continued)

(ii) Equity price risk (continued)

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

	Carrying amount	**Increase/ (decrease) in profit after tax**	**Increase/ (decrease) in other comprehensive income**
	RMB'000	**RMB'000**	**RMB'000**
2016			
Equity investments:			
Shenzhen – Available-for-sale	70,135	-	2,630
– At fair value through profit or loss	7,733	290	-
Shanghai – Available-for-sale	674,978	-	25,312
– At fair value through profit or loss	25,942	973	-
National Equity Exchange and Quotation – available-for-sale	119,211	-	4,470
2015(Restated)			
Equity investments:			
Shenzhen – Available-for-sale	222,906	-	8,359
– At fair value through profit or loss	21,873	820	-
Shanghai – Available-for-sale	937,287	-	35,108
– At fair value through profit or loss	31,279	1,174	-

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS(CONTINUED)

(a) Market risk (continued)

(iii) Interest rate risk

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

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

Debt investments

	2016		
	At fair value through profit or loss RMB'000	Held-to-maturity RMB'000	Available-for-sale RMB'000
Within 1 year	40,921	-	-
1 to 5 years	-	-	339,925
More than 5 years	-	-	30,866
Total	40,921	-	370,791
Effective interest rate (% per annum)	0.2-5.7	-	1.63-6.9

	2015(Restated)		
	At fair value through profit or loss RMB'000	Held-to-maturity RMB'000	Available-for-sale RMB'000
Within 1 year	3,510	-	31,270
1 to 5 years	-	-	371,693
More than 5 years	-	-	31,356
Total	3,510	-	434,319
Effective interest rate (% per annum)	0.5-1.7		5.3-7.12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS(CONTINUED)

(a) Market risk(continued)

(iii) interest rate risk (continued)

Other financial assets

	2016		
	Loans receivables RMB'000	Discounted bills receivables RMB'000	Time deposits RMB'000
Within 1 year	5,833,210	194,060	14,120,037
1 to 5 years	1,032,380	-	-
Total	6,865,590	194,060	14,120,037
Effective interest rate (% per annum)	1.95-5.58	3.18-4.62	0.35-3.75

	2015(Restated)		
	Loans receivables RMB'000	Discounted bills receivables RMB'000	Time deposits RMB'000
Within 1 year	5,866,128	375,653	6,049,824
1 to 5 years	965,520	-	-
Total	6,831,648	375,653	6,049,824
Effective interest rate (% per annum)	1.95-5.58	2.97-5.49	0.35-4.15

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS(CONTINUED)

(a) Market risk(continued)

(iii) interest rate risk (continued)

Financial liabilities

	2016	
	Interest-bearing bank and other borrowings RMB'000	Customer deposits* RMB'000
Within 1 year	49,491	2,921,509
1 to 5 years	-	-
Total	49,491	2,921,509
Effective interest rate (% per annum)	0.5-7.0	0.35-2.31

	2015(Restated)	
	Interest-bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	652,695	5,704,331
1 to 5 years	84,729	-
Total	737,424	5,704,331
Effective interest rate (% per annum)	1.8-5.3	0.35-3.75

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS(CONTINUED)

(a) Market risk(continued)

(iii) interest rate risk (continued)

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB'000	Increase/ (decrease) in other comprehensive income RMB'000
2016			
RMB	15	41,114	(466)
RMB	(15)	(41,114)	466
USD	15	(56)	-
USD	(15)	56	-
2015(Restated)			
RMB	15	34,979	(1,235)
RMB	(15)	(34,979)	1,235
USD	15	(146)	-
USD	(15)	146	-
HKD	15	(660)	-
HKD	(15)	660	-

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS(CONTINUED)

(b) Credit risk

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

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

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group does not have a significant concentration of credit risk in relation to the trade receivables as the trade receivables due from the five largest customers accounted for only 17.43% (2015: 14.9%)of the Group's trade receivables as at 31 December 2016.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Liquidity risk

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

	2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	24,833,846	4,366,096	1,499,513	-	-	30,699,455
Bills payable	-	3,305,433	2,607,601	-	-	5,913,034
Financial liabilities included in other payables and accruals	5,759,833	314,884	1,078,028	180,442	-	7,333,187
Customer deposits	2,595,379	199,000	127,130	-	-	2,921,509
Interest-bearing bank and other borrowings	-	321,726	2,124,007	1,104,319	-	3,550,052
Financial liabilities included in other non-current liabilities	-	-	-	1,257,030	28,233	1,285,263
Bonds	-	46,288	138,864	12,388,489	-	12,573,641
Derivative financial instruments	-	-	26,788	-	-	26,788
	33,189,058	8,553,427	7,601,931	14,930,280	28,233	64,302,929

	2015(Restated)					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	25,895,820	1,342,441	1,369,712	-	-	28,607,973
Bills payable	-	1,534,676	1,904,736	-	-	3,439,412
Financial liabilities included in other payables and accruals	4,995,798	4,987,794	718,643	180,442	-	10,882,677
Customer deposits	4,962,739	127,246	614,346	-	-	5,704,331
Interest-bearing bank and other borrowings	-	4,010	1,987,768	138,287	-	2,130,065
Financial liabilities included in other non-current liabilities	-	-	-	563,175	750	563,925
Bonds	-	440,527	117,193	6,441,162	6,000,756	12,999,638
Derivative financial instruments	-	-	25,507	-	-	25,507
	35,854,357	8,436,694	6,737,905	7,323,066	6,001,506	64,353,528

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

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

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

	2016 RMB'000	2015 RMB'000 (Restated)
Interest-bearing bank and other borrowings	3,406,717	3,278,697
Bonds	11,148,377	11,192,637
Debt	14,555,094	14,471,334
Total equity	57,647,131	51,988,052
Total equity and net debt	72,202,225	66,459,386
Gearing ratio	20.16%	21.77%

3.3 FAIR VALUE ESTIMATION

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

	Carrying amounts		Fair values	
	2016 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000 (Restated)
Financial liabilities				
Non-current portion of interest-bearing bank and other borrowings	995,994	122,729	887,609	117,922
Bonds	11,148,377	11,192,637	11,192,637	12,079,006
	12,144,371	11,315,366	12,080,246	12,196,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

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

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

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

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

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

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

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

As at 31 December 2016, the marked to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(a) Fair value hierarchy

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

(i) Financial assets measured at fair value:

	As at 31 December 2016 Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	**Significant observable inputs (level 2) RMB'000**	**Significant unobservable inputs (level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments:				
Equity investments	864,324	-	-	864,324
Debt investments	-	370,791	-	370,791
Investment funds	1,914,702	-	-	1,914,702
Investment products	-	1,269,681	-	1,269,681
Investments at fair value through profit or loss:				
Equity investments	33,675	-	-	33,675
Debt investments	40,921	-	-	40,921
Investment funds	116,402	-	-	116,402
Derivative financial instruments	-	707,358	-	707,358
	2,970,024	2,347,830	-	5,317,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(a) Fair value hierarchy (continued)

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

(i) Financial assets measured at fair value(continued):

	As at 31 December 2015(Restated) Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investments	1,160,193	-	-	1,160,193
Debt investments	-	434,319	-	434,319
Investment funds	1,817,150	-	-	1,817,150
Investment products	-	1,226,368	-	1,226,368
Investments at fair value through profit or loss:				
Equity investments	53,152	-	-	53,152
Debt investments	3,510	-	-	3,510
Investment funds	32,867	-	-	32,867
Derivative financial instruments	-	664,805	-	664,805
	3,066,872	2,325,492	-	5,392,364

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(a) Fair value hierarchy (continued)

(ii) Financial liabilities measured at fair values:

	As at 31 December 2016 Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Derivative financial instruments	-	26,788	-	26,788

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

(iii) Liabilities for which fair value are disclosed:

	As at 31 December 2016 Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Non-current portion of interesting-bearing bank and other borrowings	-	995,994	-	995,994
Bonds	11,148,377	-	-	11,148,377

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB1,136,011,000 (2015:RMB189,151,000). More details are given in Note 17 to the financial statements.

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

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

(c) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2016 was RMB2,897,838,000 (2015: RMB2,911,443,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2016 was RMB5,277,790,000 (2015: RMB3,219,894,000). Further details are contained in Note 24 to the financial statements.

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(e) Impairment of trade receivables

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

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

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

(g) Provisions

The Group makes provisions for product warranty, onerous contracts, staff early retirement and late delivery. Management estimates the related provisions based on contract terms, available knowledge and past experience. The Group recognises provisions to the extent that it has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and that the amount can be reliably estimated. The carrying amount of the provisions at 31 December 2016 was RMB3,846,842,000 (2015: RMB3,406,210,000). More details are given in Note 40 to the financial statements.

(h) Useful lives of property, plant and equipment

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

(i) Defined benefit plan

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(j) Revenue recognition

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

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

(k) Fair value of derivatives and other financial instruments

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

(l) Income tax

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

Certain subsidiaries were subject to a corporate income tax rate of 15% as they have been assessed as "High-New Technology Enterprises" under the Corporate Income Tax Law as at 31 December 2016. Those subsidiaries provided income tax and recognised the deferred tax assets and liabilities at tax rate of 15%.

4.2 JUDGEMENTS

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

Operating lease commitments – Group as lessor

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 JUDGEMENTS (CONTINUED)

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

The Group considers that it controls Shanghai Mechanical & Electrical Industry Co., Ltd.("SMEI") even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of SMEI with a 47.83% equity interest. The remaining 52.17% equity shares in SMEI are widely held by many other shareholders, none of whose equity shares is significant individually (since the date of the acquisition of the equity interest in SMEI by the Group). Since the date of acquisition, there has been no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

5. Segment information

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

The details of operating segments are as follows:

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2016	New energy and environmental protection RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Inter segmented eliminations RMB'000	Total RMB'000
Segment revenue:								
Sales to external customers	12,340,507	25,080,971	23,378,727	17,026,936	1,228,119	23,101	-	79,078,361
Intersegment sales	1,051,707	3,022,933	390,208	815,058	6,450	25,049	(5,311,405)	-
Total revenue	13,392,214	28,103,904	23,768,935	17,841,994	1,234,569	48,150	(5,311,405)	79,078,361
Operating profit/(loss)	348,837	939,706	2,119,859	1,183,926	(206,554)	(74,034)	666,862	4,978,602
Finance costs								(500,674)
Share of profits and losses of:								
Joint ventures								206,617
Associates								589,917
Profit before tax								5,274,462
Income tax expense								(1,113,093)
Profit for the year								4,161,369
Assets and liabilities								
Segment assets	26,042,956	59,750,742	36,799,447	86,052,794	2,668,815	18,971,305	(54,652,148)	175,633,911
Segment liabilities	16,712,434	43,012,533	24,057,519	74,112,065	230,711	13,176,309	(53,314,791)	117,986,780
Other segment information:								
Capital expenditure	1,040,146	199,711	345,355	201,064	14,285	4,977	-	1,805,538
Depreciation and amortization	232,211	637,308	441,790	21,848	71,482	122,018	-	1,526,657
Other non-cash expenses	915,203	748,083	95,553	138,659	4,684	-	-	1,902,182

5. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015 (Restated)	New energy and environmental protection RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Inter segmented eliminations RMB'000	Total RMB'000
Segment revenue:								
Sales to external customers	11,036,175	27,062,030	23,824,074	17,143,364	387,027	7,941	-	79,460,611
Intersegment sales	1,042,804	2,652,566	891,116	667,328	31,132	45,641	(5,330,587)	-
Total revenue	12,078,979	29,714,596	24,715,190	17,810,692	418,159	53,582	(5,330,587)	79,460,611
Operating profit/(loss)	46,644	1,132,959	2,565,268	1,603,863	(158,852)	323,652	454,015	5,967,549
Finance costs								(517,581)
Share of profits and losses of:								
Joint ventures								15,682
Associates								534,118
Profit before tax								5,999,768
Income tax expense								(1,298,129)
Profit for the year								4,701,639
Assets and liabilities								
Segment assets	22,253,698	62,149,014	36,333,335	81,109,469	1,598,143	12,765,735	(50,741,522)	165,467,872
Segment liabilities	13,751,508	42,546,932	23,432,342	68,113,190	174,233	7,785,639	(42,324,024)	113,479,820
Other segment information:								
Capital expenditure	453,801	368,150	465,525	48,606	38,598	20,337	(594)	1,394,423
Depreciation and amortization	407,894	671,996	444,813	16,880	98,945	60,805	-	1,701,333
Other non-cash expenses	816,111	(23,099)	98,463	221	-	-	-	891,696

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT INFORMATION(CONTINUED)

Geographical information

(a) Revenue from external customers

	2016 RMB'000	2015 RMB'000 (Restated)
Mainland China	71,934,085	70,701,315
Other countries/jurisdictions	7,144,276	8,759,296
	79,078,361	79,460,611

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

(b) Non-current assets

	2016 RMB'000	2015 RMB'000 (Restated)
Mainland China	26,066,905	20,429,933
Other countries/jurisdictions	3,768,753	3,554,613
	29,835,658	23,984,546

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

6. REVENUE

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

An analysis of revenue is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Revenue		
Turnover		
Sale of goods	62,185,829	63,335,467
Construction contracts	9,209,734	8,766,544
Rendering of services	5,175,434	4,850,449
	76,570,997	76,952,460
Other revenue		
Sales of raw materials, spare parts and semi-finished goods	664,596	756,426
Finance lease income	729,593	440,167
Rental income under operating leases	107,032	72,500
Finance Company:		
Interest income on loans receivable and discounted bills receivable	239,981	412,162
Interest income from banks and other financial institutions	283,648	400,631
Others	482,514	426,265
	2,507,364	2,508,151
	79,078,361	79,460,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

7. OTHER INCOME AND OTHER GAINS, NET

	2016 RMB'000	2015 RMB'000 (Restated)
Other income		
Interest income on bank balances and time deposits	249,712	284,477
Interest income on debt investments	16,349	31,140
Dividend income from equity investments and investment funds	172,002	85,486
Subsidy income	494,504	397,654
	932,567	798,757
Other gains, net		
Gains on disposal of subsidiaries	222,690	926,018
Realised gains on available-for-sale investments (transfer from equity)	167,037	634,684
Exchange gains - net	107,502	91,935
Gains on disposal of associates	124,468	-
Investments at fair value through profit or loss:		
Unrealised fair value gains-net	199	(58,378)
Realised fair value gains-net	13,955	125,590
Derivative financial instruments -transactions not qualifying as hedges:		
Unrealised fair value (losses)/gains - net	(1,312)	2,237
Debt restructure gains - net	3,924	10,994
Income received from the governments for the relocation compensation (a)	24,416	431,717
Gains on inventory count	23,771	542
Gains on disposal of property, plant and equipment	13,122	1,002
Gains on disposal of land use rights	1,694	-
Losses on disposal of other intangible assets	-	(141)
Others	180,259	234,706
	881,725	2,400,906
Total other income and other gains, net	1,814,292	3,199,663

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

8. EXPENSE BY NATURE

	2016 RMB'000	2015 RMB'000 (Restated)
Raw materials and consumables used	35,195,688	35,205,991
Cost of purchased product components and services	26,926,283	26,831,161
Employee benefit expenses (Note 9)	6,383,051	6,787,135
Asset impairment charge	2,349,498	2,407,258
Depreciation and amortisation (Note 14, Note 15, Note 16 and Note 18)	1,526,657	1,701,335
Commissions and brokerage fees	633,609	708,079
Taxes levies and surcharges	622,469	484,317
Office expenses	527,942	595,952
Utility expenses	419,522	426,039
Operating lease expenses	278,869	199,290
Transportation cost and packaging fees	216,141	371,905
Technique commission expenses	120,629	248,147
Interest paid for customer deposits	52,854	101,089
Remuneration of auditors	24,345	23,337
Other expenses	636,494	601,690
Total cost of sales, distribution expenses and administrative expenses	75,914,051	76,692,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

9. EMPLOYEE BENEFIT EXPENSE

	2016 RMB'000	2015 RMB'000 (Restated)
Staff costs (including directors' and supervisors' remuneration):		
Wages and salaries	4,773,154	4,946,526
Defined contribution pension scheme (i)	688,972	705,956
Supplementary pension	141,264	128,146
Early retirement benefits and staff severance costs (ii)	30,754	208,262
Medical benefits costs (iii)	358,146	403,890
Housing fund	383,003	386,883
Cash housing subsidy costs	7,758	7,472
	6,383,051	6,787,135

(i) Defined contribution pension schemes

All of the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government regulated pension scheme mainly at 21.0%(2015: 21.0%)of the employees' basic salaries. This defined contribution pension scheme continued to be available to the Group's employees for the year. The related pension costs are expensed as incurred.

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

(ii) Early retirement benefits and staff severance

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

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

9. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

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

Based on the directors' estimation, the Group's obligations to the early retirement benefits and staff severance until the qualified employees are eligible for the government-regulated pension scheme amounted to approximately RMB151,931,000 as at 31 December 2016 (2015: RMB167,318,000).The costs of the early retirement benefits were recognised in the period when employees opted for early retirement. The provision for early retirement benefits was not assessed by any independent actuary. Where the effect of discounting is material, the amount recognised for the early retirement benefits is the present value of reporting period date of the future cash flows expected to be required to settle the obligation. The staff severance costs are recognised when the Group has a formal plan for the termination or an offer to voluntary redundancy and is without realistic possibility of withdrawal.

(iii) Medical benefits

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

(iv) Five highest paid employees

No director (2015: Nil) was included in the five highest paid employees during the year. Details of the remuneration for the year of the five (2015: five) highest paid employees who are neither a director nor a supervisor of the Company, are as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Salaries, bonuses and allowances received from the Group	6,090	12,338
Pension scheme from the ultimate holding company	-	-
Other social benefit schemes contributed by the Group	-	-
	6,090	12,338

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

	Number of employees	
	2016	2015 (Restated)
HK$1,500,001 - HK$2,000,000	5	2
HK$2,000,001 - HK$2,500,000	-	-
HK$2,500,001 - HK$5,000,000	-	2
HK$5,000,001 - HK$10,000,000	-	1
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000 (Restated)
Interest expense:		
-Bank borrowings	112,046	164,572
-Bonds	388,628	353,009
	500,674	517,581

11. INCOME TAX EXPENSE

With the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") effective on 1 January 2008, the Company and all of its subsidiaries that operate in Mainland China were subject to the statutory corporate income tax rate of 25% for the year ended 31 December 2016 (2015: 25%) under the income tax rules and regulations of the PRC, except that:

Certain subsidiaries were subject to a corporate income tax rate of 15% as they have been assessed as "High-New Technology Enterprises" under the Corporate Income Tax Law as at 31 December 2016. Those subsidiaries provided income tax and recognised the deferred tax assets and liabilities at tax rate of 15%.

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

	2016 RMB'000	2015 RMB'000 (Restated)
Current tax		
Charge for the year	1,038,525	1,747,564
Overprovision in prior years	(72,201)	(78,862)
Deferred tax (Note 24)	146,769	(370,573)
Total tax charge for the year	1,113,093	1,298,129

11. INCOME TAX EXPENSE (CONTINUED)

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

	2016 RMB'000	%	2015 RMB'000	%
			(Restated)	
Profit before tax	5,274,462		5,999,768	
Tax at the statutory tax rate	1,318,616	25.0	1,499,942	25.0
Lower tax rates for specific districts or concessions	(287,872)	(5.5)	(308,573)	(5.1)
Overprovision in prior years	(72,201)	(1.4)	(78,862)	(1.3)
Profits and losses attributable to joint ventures and associates	(199,134)	(3.8)	(140,300)	(2.3)
Income not subject to tax	(145,998)	(2.8)	(243,601)	(4.1)
Expenses not deductible for tax	71,140	1.3	54,028	0.9
Tax incentives on eligible expenditures	(44,480)	(0.8)	(42,360)	(0.7)
Utilization of previously unrecognised tax losses and deductible temporary differences	(190,619)	(3.6)	(79,742)	(1.3)
Tax losses and deductible temporary differences for which no deferred tax assets was recognised	532,448	10.2	545,571	8.9
Provision of deferred tax assets	126,543	2.4	75,000	1.3
Others	4,650	0.1	17,026	0.3
	1,113,093	21.1	1,298,129	21.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares of 13,244,387,333 (2015: 13,150,435,660)in issue during the year.

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

The calculation of basic earnings per share is based on:

	2016	2015
		(Restated)
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation (RMB'000)	2,017,843	2,093,314
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	13,244,387,333	13,150,435,660

13. DIVIDENDS

	2016 RMB'000	2015 RMB'000
		(Restated)
Proposed final dividend paid of RMB (2015: None) per ordinary share	-	-
	-	-

As considered and approved by the Board, the Company proposed to acquire assets by issuance of shares as well as to raise supporting fund (the "Transactions"). Such Transactions are still pending for submission to shareholders' meeting for review and consideration. In order to ensure the successful implementation of the Transactions and also for the long-term consideration for the Company's development and shareholders' benefit, along with Article 17 of the Measures for the Administration of Securities Issuance and Underwriting (Measures for the Administration of the Offering and Underwriting of Securities), which provides that, "If any profit distribution scheme or the scheme of capitalization from capital public reserve has not been submitted to the general meeting for shareholders' voting, or such scheme has not been implemented upon voting and approval by shareholders at the general meeting, the listed company shall issue the securities after such scheme is implemented. Before relevant plan is implemented, the lead underwriter shall not underwrite the securities issued by the listed company", the Company, after due discussion, decided not to proceed with any profit distribution nor appropriation from capital reserves to share capital for the year 2016.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and others RMB'000	Construction in progress RMB'000	Total RMB'000
At cost:						
At 1 January 2016(Restated)	7,920,931	12,780,016	540,681	1,093,914	983,712	23,319,254
Additions	638,636	123,576	12,366	42,911	1,366,940	2,184,429
Additions due to acquisition of subsidiaries	51,594	40,984	1,438	12,221	4,520	110,757
Disposals	(85,444)	(700,044)	(44,042)	(60,449)	(6,678)	(896,657)
Deduction due to disposal of subsidiaries	(132,740)	(34,010)	(9,618)	(30,310)	(3,706)	(210,384)
Transfers from construction in progress	220,535	688,316	12,703	68,350	(989,904)	-
Transferred to other intangible assets (Notes 18)	-	-	-	-	(3,021)	(3,021)
At 31 December 2016	8,613,512	12,898,838	513,528	1,126,637	1,351,863	24,504,378
Accumulated depreciation and impairment:						
At 1 January 2016(Restated)	2,810,731	6,947,902	392,224	774,291	622	10,925,770
Depreciation for the year (Note 8)	301,443	822,542	37,728	114,644	-	1,276,357
Impairment for the year	2,778	100,151	37	250	380	103,596
Deduction of impairment due to the disposals	(141)	(100,648)	(10)	(71)	-	(100,870)
Deduction of depreciation due to the disposals	(42,292)	(485,155)	(43,303)	(56,978)	-	(627,728)
Deduction in depreciation due to disposal of subsidiaries	(20,467)	(20,558)	(8,340)	(13,220)	-	(62,585)
At 31 December 2016	3,052,052	7,264,234	378,336	818,916	1,002	11,514,540
Net carrying amount:						
At 31 December 2016	5,561,460	5,634,604	135,192	307,721	1,350,861	12,989,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

14. PROPERTY, PLANT AND EQUIPMENT(CONTINUED)

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and others RMB'000	Construction in progress RMB'000	Total RMB'000
At cost:						
At 1 January 2015(Restated)	8,170,945	14,687,254	610,629	1,349,906	1,219,928	26,038,662
Additions	484	289,806	16,622	47,984	849,782	1,204,678
Additions due to acquisition of subsidiaries	24,537	23,463	3,220	3,079	88	54,387
Disposals	(289,588)	(604,052)	(50,852)	(61,264)	(23,182)	(1,028,938)
Deduction due to disposal of subsidiaries	(200,319)	(265,223)	(18,920)	(198,219)	(2,259)	(684,940)
Transfers from construction in progress	286,313	571,209	13,408	71,702	(942,632)	-
Transferred to other intangible assets (Notes 18)	-	-	-	-	(34,907)	(34,907)
Transferred to disposal group classified as held for sale	(71,441)	(1,922,441)	(33,426)	(119,274)	(83,106)	(2,229,688)
At 31 December 2015 (Restated)	7,920,931	12,780,016	540,681	1,093,914	983,712	23,319,254
Accumulated depreciation and impairment:						
At 1 January 2015(Restated)	2,870,762	7,294,652	430,334	935,514	622	11,531,884
Depreciation for the year (Note 8)	281,784	952,465	47,099	130,587	-	1,411,935
Impairment for the year	-	133,877	23	53	-	133,953
Deduction of impairment due to the disposals	(110)	(612)	-	-	-	(722)
Deduction of depreciation due to the disposals	(215,921)	(344,543)	(45,677)	(43,939)	-	(650,080)
Deduction in depreciation due to disposal of subsidiaries	(102,899)	(174,086)	(15,791)	(155,538)	-	(448,314)
Deduction in impairment due to disposal of subsidiaries	(4,177)	-	-	-	-	(4,177)
Transferred to disposal group classified as held for sale	(18,708)	(913,851)	(23,764)	(92,386)	-	(1,048,709)
At 31 December 2015 (Restated)	2,810,731	6,947,902	392,224	774,291	622	10,925,770
Net carrying amount:						
At 31 December 2015 (Restated)	5,110,200	5,832,114	148,457	319,623	983,090	12,393,484

14. PROPERTY, PLANT AND EQUIPMENT(CONTINUED)

As at 31 December 2016, the net carrying amount of buildings and machinery mortgaged by the Group for bank loans was RMB 476,265,000 (31 December 2015:RMB 340,585,000) (Note 39).

As at 31 December 2016, the net carrying amount of houses without property ownership certificates of the Group was RMB 5,926,000.

Equipment and property rentals recognised in the income statements was RMB 278,869,000 (2015: 199,290,000) (Note 8).

In the current year, the Group has no capitalised borrowings (2015: Nil).

15. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
At cost:		**(Restated)**
At 1 January	675,582	576,060
Addition	30	99,522
At 31 December	675,612	675,582
Accumulated depreciation:		
At 1 January	296,127	274,369
Depreciation for the year (Note 8)	25,516	21,758
At 31 December	321,643	296,127
Net carrying amount:		
At 31 December	353,969	379,455

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintance (2015: Nil). The Group's investment properties are situated in mainland China and are held under the following lease terms:

	2016 RMB'000	2015 RMB'000
		(Restated)
Medium term leases (less than 50 years but not less than 10 years)	61,752	106,121
Short term leases (less than 10 years)	292,217	273,334
	353,969	379,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

16. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
At cost:		**(Restated)**
At 1 January	2,179,818	2,229,423
Additions	2,611,006	93,397
Additions from acquisition of a subsidiary	6,725	-
Disposals	(1,339)	(7,825)
Deduction due to disposal of subsidiaries	(63,063)	(100,084)
Transferred to disposal group classified as held for sale	-	(35,093)
At 31 December	4,733,147	2,179,818
Accumulated amotisation		
At 1 January	429,128	399,749
Amortisation for the year(Note 8)	88,487	53,039
Disposals	(525)	(1,472)
Deduction due to disposal of subsidiaries	(2,773)	(18,328)
Transferred to disposal group classified as held for sale	-	(3,860)
At 31 December	514,317	429,128
Net carrying amount:		
At 31 December	4,218,830	1,750,690

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

	2016 RMB'000	2015 RMB'000
At cost, held in Mainland China		**(Restated)**
Leases of over 50 years	517,130	13,467
Leases of between 10 to 50 years	4,215,011	2,166,351
	4,732,141	2,179,818

As at 31 December 2016, no land use right of the Group was pledged to secure certain bank loans granted to the Group (2015: Nil).

17. GOODWILL

	2016 RMB'000	2015 RMB'000
At cost:		**(Restated)**
At 1 January	236,830	407,582
Increase during the year (Note 50)	1,040,346	27,345
Transferred out due to disposal of subsidiaries	-	(198,097)
At 31 December	1,277,176	236,830
Impairment:		
At 1 January	47,679	245,776
Increase during the year	93,486	-
Transferred out due to disposal of subsidiaries	-	(198,097)
At 31 December	141,165	47,679
Net carrying amount:		
At 31 December	1,136,011	189,151

Impairment testing of goodwill

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

Cash-generating unit	Segment	2016 RMB'000	2015 RMB'000 (Restated)
Automation equipment	Industrial devices	1,040,346	-
Transmission and distribution equipment	High efficiency and clean energy	62,356	135,590
Environmental technology	New energy and environmental protection	13,733	13,733
Printing and packing machinery	Industrial equipment	12,483	12,483
Wind power equipment and others	New energy and environmental protection	7,093	27,345
		1,136,011	189,151

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

17. GOODWILL(CONTINUED)

The key assumptions of the cash-generating units in 2016 and 2015 are as follows：

	2016	2015
		(Restated)
Growth rate used to extrapolate cash flows beyond five-year period	3%	3%
Gross margin	19%-24%	19%-24%
Discount rate applied	8%-14%	10%-14%

Assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2016 and 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

18. INTANGIBLE ASSETS

	Patents and licences RMB'000	Technology know-how RMB'000	Concession RMB'000	Others RMB'000	Total RMB'000
At cost:					
At 1 January 2016(Restated)	914,521	542,386	446,962	300,194	2,204,063
Additions	723	-	426	216,810	217,959
Additions due to acquisition of subsidiaries	258,141	26,014	-	152,758	436,913
Transferred from construction in progress (Note 14)	-	-	1,931	1,090	3,021
Disposals	-	(2,966)	-	(192,120)	(195,086)
Deduction due to disposal of subsidiaries	-	-	-	(7,749)	(7,749)
At 31 December 2016	1,173,385	565,434	449,319	470,983	2,659,121
Accumulated amortisation and impairment:					
At 1 January 2016(Restated)	511,722	435,262	120,124	129,429	1,196,537
Amortisation for the year (Note 8)	32,094	29,263	19,344	33,405	114,106
Disposals	-	(758)	-	(1,967)	(2,725)
Deduction due to disposal of subsidiaries	-	-	-	(3,259)	(3,259)
At 31 December 2016	543,816	463,767	139,468	157,608	1,304,659
Net carrying amount:					
At 31 December 2016	629,569	101,667	309,851	313,375	1,354,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

18. INTANGIBLE ASSETS(CONTINUED)

	Patents and licences RMB'000	Technology know-how RMB'000	Concession RMB'000	Others RMB'000	Total RMB'000
At cost:					
At 1 January 2015(Restated)	989,107	540,487	413,001	271,227	2,213,822
Additions	2,582	1,899	39	70,258	74,778
Additions due to acquisition of subsidiaries	30,327	-	-	5,003	35,330
Transferred from construction in progress (Note 14)	-	-	33,922	985	34,907
Disposals	-	-	-	(27,365)	(27,365)
Deduction due to disposal of subsidiaries	(107,495)	-	-	(8,225)	(115,720)
Transferred to disposal group classified as held for sale	-	-	-	(11,689)	(11,689)
At 31 December 2015(Restated)	914,521	542,386	446,962	300,194	2,204,063
Accumulated amortisation and impairment:					
At 1 January 2015(Restated)	504,581	388,134	102,050	123,494	1,118,259
Amortisation for the year (Note 8)	52,236	47,128	18,074	30,633	148,071
Disposals	-	-	-	(7,070)	(7,070)
Deduction due to disposal of subsidiaries	(45,095)	-	-	(7,641)	(52,736)
Transferred to disposal group classified as held for sale	-	-	-	(9,987)	(9,987)
At 31 December 2015(Restated)	511,722	435,262	120,124	129,429	1,196,537
Net carrying amount:					
At 31 December 2015(Restated)	402,799	107,124	326,838	170,765	1,007,526

Amortisation of RMB69,441,000 (2015: RMB82,699,000)and RMB44,665,000 (2015: RMB65,372,000)is included in the 'Administrative expenses' and 'Distribution expenses', respectively, in the consolidated income statement.

19. SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2016 are as follows:

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. 上海電氣集團上海電機廠有限公司	PRC	RMB 241,818	100%	-	Production and sale of turbine generators and spare parts
Shanghai Boiler Works, Ltd. 上海鍋爐廠有限公司	PRC	RMB 207,483	100%	-	Sale of power station boilers, industry boilers and power station equipment
Shanghai Electric Power Generation Equipment Co., Ltd. #* 上海電氣電站設備有限公司#*	PRC	USD 264,792	-	60%	Design, manufacture and sale of power generation equipment and auxiliary products
Shanghai Electric Wind Power Group Co., Ltd. 上海電氣風電集團有限公司	PRC	RMB 2,147,421	100%	-	Production and sale of wind power equipment, spare parts and provision of after-sales service
SEC Power Generation Environment Protection Engineering Co., Ltd. 上海電氣電站環保工程有限公司	PRC	RMB 50,000	95%	-	Design, manufacture and sale of desulphurisation equipment
Shanghai Electric Nuclear Power Equipment Co., Ltd. 上海電氣核電設備有限公司	PRC	RMB 2,092,000	100%	-	Production and sale of nuclear power equipment spare parts and provision of after-sales service
Shanghai No.1 Machine Tool Works Co., Ltd. 上海第一機床廠有限公司	PRC	RMB 620,000	100%	-	Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipment
Shanghai Electric Group Finance Co., Ltd. 上海電氣財務集團有限責任公司	PRC	RMB 2,200,000	73.38%	15.63%	Provision of financial services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2016 are as follows (continued):

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Electric International Economic and trade Ltd. 上海電氣國際經濟貿易有限公司	PRC	RMB 350,000	100%	-	Import and export of products
Shanghai Mechanical & Electrical Industry Co., Ltd. ^ 上海機電股份有限公司^	PRC	RMB 1,022,740	47.83%	-	Production and sale of elevators, printing and packing machinery, artificial boards, air-conditioners, welding materials and engineering machinery
Shanghai Nanhua-Lanling Electric Co., Ltd.* 上海南華蘭陵電氣有限公司*	PRC	RMB 100,000	-	50%	Design and production of electrical switchgear and providing relevant service
Shanghai Turbine Works Co., Ltd. 上海汽輪機廠有限公司	PRC	RMB 246,675	100%	-	Production and sale of turbines and auxiliary engines
Shanghai Mitsubishi Elevator Co., Ltd. # * 上海三菱電梯有限公司# *	PRC	USD 155,269	-	52%	Production and sale of elevators, escalators, electronic ramps, building automation, management and safety systems and provision of relevant service
Shanghai Electronics Import & Export Co. Ltd. 上海電器進出口有限公司	PRC	RMB 10,000	100%	-	Acting as agent of imports and exports of goods and technology
Shanghai Electric Gas Turbine Co., Ltd.# 上海電氣燃氣輪機有限公司#	PRC	RMB 600,000	60%	-	Research, design and production of heavy-duty gas turbines and provision of technical consulting service
Shanghai Machine Tool Works Ltd. 上海機床廠有限公司	PRC	RMB 698,733	100%	-	Production and sale of machinery and spare parts

19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2016 are as follows(continued):

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Electric Transmission and Distribution Group Co., Ltd.& 上海電氣輸配電集團有限公司&	PRC	RMB 2,000,000	50%	-	Production and sale of power transmission, distribution and controlling equipment
Shanghai Electric Wind Energy Co., Ltd. 上海電氣風能有限公司	PRC	RMB 844,196	100%	-	Design, research and development and sales wind power equipment and spare parts
Shanghai Electric Leasing Co., Ltd. 上海電氣租賃有限公司	PRC	RMB 3,000,000	100%	-	Provision of finance leases
Shanghai Electric Milling Equipment Co., Ltd. 上海電氣上重碾磨特裝設備有限公司	PRC	RMB 50,000	100%	-	Design, production and sale of power station equipments
Shanghai Electric Hong Kong Co., Ltd. 上海電氣香港有限公司	HK	RMB 547,674	100%	-	Sales of machinery and electronic products and related services business, import and export trade business, trade business, investment business
Shanghai Electric Wind Energy Equipment Co., Ltd. 上海電氣風能裝備有限公司	PRC	RMB 493,730	100%	-	Design and production of fan equipment
TEC4AERO GmbH*	GER	EURO 1,798	-	100%	Manufacturing of equipment for aircraft assembly lines
Shanghai Electric Wind Power Yunnan Company., Ltd 上海電氣風電雲南有限公司	PRC	RMB 20,000	100%	-	Production,installation and sale of wind generating set
Shanghai Institute of Mechanical & Electrical Engineering Co., Ltd. 上海市機電設計研究院有限公司	PRC	RMB 91,996	100%	-	Engineering design,technology services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2016 are as follows(continued):

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Najie Electrical Complete Sets Co., Ltd* 上海納傑電氣成套有限公司*	PRC	RMB 50,000	-	85%	Electrical equipment full set
Shanghai Renmin Electrical Apparatus Works* 上海電器股份有限公司人民電器廠*	PRC	RMB 90,000	-	100%	Production and sale of main parts of transformers
Shanghai Electric Power Transmission and Distribution Engineering Co., Ltd.* 上海電氣輸配電工程成套有限公司*	PRC	RMB 50,000	-	100%	Design and consulting services for power station, transfomers and other projects
Shanghai Boiler Works Ltd. 上海鼓風機廠有限公司	PRC	RMB 239,760	100%	-	Production, sale and export blowers and import related materials
Shanghai Denso Fuel Injection Co., Ltd.# 上海電裝燃油噴射有限公司#	PRC	USD 29,400	61%	-	Design and production of diesel engine fuel pump and components
Shanghai Feihang Electric Wire and Cable Co., Ltd.* 上海飛航電線電纜有限公司*	PRC	RMB 150,000	-	60%	Production and sale of wire and cable electrical equipment
Shanghai Huapu Cable Co., Ltd.* 上海華普電纜有限公司*	PRC	RMB 200,000	-	80%	Production and sale of wire and cable

19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2016 are as follows(continued):

Sino-foreign equity joint ventures

^ SMEI is 47.83% owned by the Company and is accounted for as a subsidiary by virtue of the Company's control over it. Details of the disclosure are included in Note 4.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

19. SUBSIDIARIES (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Percentage of equity interest held by non-controlling interests:		
SMEI	52.17%	52.32%
SETD	50%	50%

	2016 RMB'000	2015 RMB'000
Profit for the year allocated to non-controlling interests:		
SMEI	1,723,267	1,923,928
SETD	120,420	224,865
Dividends paid to non-controlling interests of:		
SMEI	1,018,489	1,052,941
SETD	125,158	127,618
Accumulated balances of non-controlling interests at the reporting dates:		
SMEI	7,185,937	6,633,249
SETD	2,008,929	1,996,421

19. SUBSIDIARIES (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
SMEI		
Revenue	18,938,552	19,295,535
Total expenses	(16,524,946)	(16,495,159)
Profit for the year	2,413,606	2,800,376
Total comprehensive income	2,412,624	2,805,995
Current assets	26,797,696	25,158,703
Non-current assets	4,943,343	4,694,031
Current liabilities	19,748,506	19,009,814
Non-current liabilities	402,071	356,434
Net cash flows from operating activities	1,999,573	1,338,775
Net cash flows from/(used in) investing activities	598,965	(59,676)
Net cash flows used in financing activities	(1,166,560)	(814,202)
Effect of changes in exchange rate on cash	13,735	406
Net increase in cash and cash equivalents	1,445,713	465,303

	2016 RMB'000	2015 RMB'000
SETD		
Revenue	7,912,299	9,084,479
Total expenses	(7,747,114)	(8,716,232)
Profit for the year	165,185	368,247
Total comprehensive income for the year	164,818	367,324
Current assets	6,799,017	6,180,078
Non-current assets	1,352,842	1,351,114
Current liabilities	4,704,582	4,079,274
Non-current liabilities	79,493	73,298
Net cash flows from operating activities	921,928	539,729
Net cash flows used in investing activities	(123,157)	(336,680)
Net cash flows used in financing activities	(223,454)	(245,132)
Effect of changes in exchange rate on cash	2,542	(273)
Net increase/(decrease) in cash and cash equivalents	577,865	(42,356)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

20. INVESTMENTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000 (Restated)
At 31 December	**2,808,979**	2,920,691

Set out below is the joint venture of the Group as at 31 December 2016, which, in the opinion of the directors, are material to the Group. The joint venture listed below has share capital consisting of solely of ordinary shares, which is held directly by the Group.

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

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

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

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

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

In addition, the functional currency of AEN is Euro while the presentation currency of the Group is RMB. The investment in AEN is exposed to the foreign exchange risk. In order to mitigate the foreign exchange risk, the Group uses EUR400,000,000 of short-term borrowing, EUR400,000,000 of bond and EUR371,700,000 of bond (Note 41) as hedging instrument, for the period from 1 January 2015 to 31 May 2015, the period from 1 June 2015 to 30 September 2016 and the period from 1 October 2016 to 31 December 2016 respectively. Formal document had been made to describe the above hedging relations between hedging instrument and hedged item, as well as risk management objectives and hedging strategies. Meanwhile, The Group performed validity tests and the result showed the above hedging was highly effective this year. Therefore, the RMB84,640,000 of net decline in investment to AEN was hedged by exchange gains on the bond(note 41) and the net amount has been recognised in the consolidated other comprehensive income.

20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Summarised financial information for joint venture

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

Summarised consolidated balance sheet

	31 December 2016 RMB'000
Current	
Assets	9,778,895
Liabilities	(10,840,164)
Non-current	
Assets	11,995,963
Liabilities	(7,754,064)
Net assets	3,180,630

Summarised consolidated statement of comprehensive income

	2016 RMB'000
Revenue	9,157,393
Profit or loss before tax	418,698
Income tax expense	104,270
Post-tax profit	522,968
Other comprehensive income	(1,003,176)
Total comprehensive income	(480,208)
Dividends received from joint venture	-

The information above reflects the amounts presented in the financial statements of the joint ventures for the year ended 31 December 2016, adjusted for differences in accounting policies between the Group and the joint ventures, and not SEG's share of those amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of summarised financial information

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

Summarised financial information	2016 RMB'000
Opening net assets at acquisition day	3,660,838
Profit for the period	522,968
Other comprehensive income	(1,003,176)
Closing net assets	3,180,630
Interest in Joint Venture @40%	1,272,252
Goodwill	1,443,824
Carrying value	2,716,076

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

	2016 RMB'000	2015 RMB'000 (Restated)
Share of the joint ventures' profit for the year	(2,570)	(12,585)
Share of the joint ventures' other comprehensive income	-	-
Share of the joint ventures' total comprehensive income	(2,570)	(12,585)
Aggregate carrying amount of the Group's investments in the joint ventures (excluding impairment)	92,903	54,344

21. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000 (Restated)
Investments, at cost:		
Share of net assets	6,270,879	4,757,306
Goodwill on acquisition	-	-
Impairment	-	-
	6,270,879	4,757,306
Share of associates' results in the consolidated income statement	589,917	534,118

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Set out below are the associates of the Group as at 31 December 2016, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yileng Carrier Air Conditioning Equipment Co., Ltd. # * 上海一冷開利空調設備有限公司#*	PRC	RMB 372,343	-	30%	Production and sale of centralised air-conditioning systems
Shanghai Marathon-Gexin Electric Co., Ltd. # * 上海馬拉松革新電氣有限公司#*	PRC	USD 8,000	-	21.31%	Production, repair and sale of electric machines and machine sets
Mitsubishi Electric Shanghai Mechanical &Electrical Elevator Co., Ltd. # * 三菱電機上海機電電梯有限公司#*	PRC	USD 53,000	-	18.94%	Research and development, manufacture and sale of major components of elevators, escalators and automatic sidewalks
Shanghai Arnaiz Special Yantian Coating Machinery Co., Ltd.# * 上海阿耐斯特岩田塗裝機械有限公司#*	PRC	JPY 329,412	-	18.94%	Design, manufacture and sale of, compression mechanical, spraying mechanical, spraying equipment, hydraulic equipment
Chengdu Ri Yong-JEA Gate Electric Co., Ltd. * 成都日用友捷汽車電氣有限公司*	PRC	RMB 20,000	-	9.47%	Design, manufacture and sale of auto radiator fans, blowers and micromotors
Shanghai Nabtesco Hydraulic Co., Ltd. # * 上海納博特斯克液壓有限公司#*	PRC	USD 14,500	-	14.20%	Production and sale of hydraulic travelling motors and swing motors
Shanghai Ri Yong-JEA Gate Electric Co., Ltd. # * 上海日用-友捷汽車電氣有限公司#*	PRC	USD 17,000	-	18.94%	Design,manufacture and sale of auto radiator fans, blowers and micromotors
Sauer Shanghai Hydrostatic Transmission Co., Ltd. # * 上海薩澳液壓傳動有限公司#*	PRC	USD 18,000	-	18.94%	Production and sale of hydraulic piston pumps and motors
Shanghai Jintai Engineering Machinery Co., Ltd. * ("Shanghai Jintai") 上海金泰工程機械有限公司*	PRC	RMB 832,239	-	23.20%	Manufacturing and operation of engineering machinery
Shanghai Mitsubishi Electric Shanglin Air Conditioner Electric Co., Ltd. #* 上海三菱電機・上菱空調機電#*	PRC	USD 58,000	-	47.6%	Production of air-conditioners and oil-filled heaters and providing after-sale service

Sino-foreign equity joint ventures

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

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

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

Summarised financial information for associates

Set out below are the summarised financial information for five significant associates including Mitsubishi Electric Shanghai Mechanical &Electrical Elevator Co., Ltd. ("Mitsubishi Electric"), Shanghai Schnetider Power Distribution Electric Apparatus Co., Ltd.("Schneider Electric"),Shanghai Rail Traffic Equipment Development Co., Ltd. ("Shanghai Rail") and Yileng Carrier Air Conditioning Equipment Co., Ltd. ("Yileng Carrier") which are accounted for using the equity method.

Summarised balance sheet and statement of comprehensive income

	Mitsubishi Electric	Schneider Electric	Shanghai Rail	Yileng Carrier
	2016 RMB'000	2016 RMB'000	2016 RMB'000	2016 RMB'000
Current				
Assets	2,349,898	909,085	2,033,210	1,550,548
Liabilities	(1,420,277)	(622,701)	(1,281,727)	(732,888)
Non-current				
Assets	382,644	95,891	535,860	416,957
Liabilities	-	-	(24,097)	-
Net assets	1,312,265	382,275	1,263,246	1,234,617
Revenue	4,478,980	2,169,297	951,691	2,963,627
Profit or loss from continuing operations	303,107	745,082	16,782	487,927
Post-tax profit from continuing operations	229,527	558,628	3,641	365,637
Other comprehensive income	-	-	-	-
Total comprehensive income	229,527	558,628	3,641	365,637
Dividends received from associates	42,926	193,162	-	140,010

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Reconciliation of summarised financial information

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

	Mitsubishi Electric 2016 RMB'000	Schneider Electric 2016 RMB'000	Shanghai Rail 2016 RMB'000	Yileng Carrier 2016 RMB'000
Opening net asset 1 January attributable to the parent company	1,172,918	789,655	1,072,479	1,335,680
Profit for the period attributable to the parent company	229,527	558,628	24,488	365,637
Dividend distribution to shareholders for the year	(90,180)	(966,008)	-	(466,700)
Other comprehensive income attributable to the parent company	-	-	-	-
Closing net assets attributable to the parent company	1,312,265	382,275	1,096,967	1,234,617
Share of associates	47.6%	20%	49%	30%
Interest in associates	624,638	76,455	537,514	370,385
Goodwill	-	-	-	-
Carrying value	624,638	76,455	537,514	370,385

22. LOANS AND LEASE RECEIVABLES

	2016			2015(Restated)		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
Loans to the ultimate holding company	2,050,000	(51,250)	1,998,750	5,086,077	(127,152)	4,958,925
Loans to SEC group companies*	3,671,440	(91,786)	3,579,654	1,251,020	(31,276)	1,219,744
Loans to associates	237,000	(5,925)	231,075	121,550	(3,038)	118,512
Loans to other related parties	22,050	(551)	21,499	-	-	-
Loans to third Parties	117,000	(29,250)	87,750	117,001	(2,925)	114,076
Loans to subcontractors	768,100	(19,203)	748,897	256,000	(6,400)	249,600
	6,865,590	(197,965)	6,667,625	6,831,648	(170,791)	6,660,857
Lease receivables	13,190,345			10,040,981		
Less: unearned finance income	(1,341,805)			(1,142,778)		
Net lease receivables	11,848,540	(437,643)	11,410,897	8,898,203	(309,808)	8,588,395
	18,714,130	(635,608)	18,078,522	15,729,851	(480,599)	15,249,252
Portion classified as current assets	10,579,976	(476,290)	10,103,686	8,472,593	(364,396)	8,108,197
Non-current portion	8,134,154	(159,318)	7,974,836	7,257,258	(116,203)	7,141,055

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

Details of loans to subcontractors are listed as follows:

	2016		2015(Restated)	
	Effective interest rate(%)	RMB'000	Actual interest rate(%)	RMB'000
SDIC Xinji Lixin Power Co. Ltd	4.37%	272,700	4.37%	256,000
SDIC Yunnan Wind Power Co., Ltd.	4.00%	66,400	-	-
Tianjin SDIC Jinneng Electric Power Co., Ltd.	3.915%	400,000	-	-
Beijing Shangzhuang Gas Thermoelectric Co., Ltd.	4.28%	29,000	-	-
		768,100		256,000

Loans to subcontractors represented RMB 117,000,000 provided by the Group's subsidiary in June 2015, Finance Company, to Shanghai Guanghua Printing Machinery Co., Ltd. With a term of 1 year and an annual interest rate of 5.53% - 5.58%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

22. LOANS AND LEASE RECEIVABLE (CONTINUED)

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

	2016		2015(Restated)	
	Impairment of loans receivable RMB'000	Impairment of lease receivables RMB'000	Impairment of loans receivable RMB'000	Impairment of lease receivables RMB'000
At 1 January	170,791	309,808	161,676	208,384
Impairment losses recognised (Note 8)	27,174	127,835	9,115	101,424
At 31 December	197,965	437,643	170,791	309,808

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

	2016 RMB'000	2015 RMB'000 (Restated)
Credit loans receivable	2,988,100	5,308,628
Guaranteed loans receivable	3,693,490	1,406,020
Secured loans	184,000	117,000
	6,865,590	6,831,648

As at 31 December 2016, RMB117,000,000 (2015: Nil) of the Group's loans receivable was past due. The annual interest rates of loans provided to related parties range from 3.92% to 5.58% (2015: 1.95% to 5.58%).

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

	2016		2015(Restated)	
	Lease receivables RMB'000	Net lease receivables RMB'000	Lease receivables RMB'000	Net lease receivables RMB'000
Within 1 year	6,276,150	5,299,681	4,839,242	4,220,360
Over 1 year but within 5 years	6,870,222	6,072,562	5,168,453	4,348,020
Over 5 years	43,973	38,654	33,286	20,015
	13,190,345	11,410,897	10,040,981	8,588,395

22. LOANS AND LEASE RECEIVABLE (CONTINUED)

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

	2016		2015(Restated)	
	Lease receivables RMB'000	Net lease receivables RMB'000	Lease receivables RMB'000	Net lease receivables RMB'000
Within 1 year	5,399,467	4,442,631	3,130,691	2,388,722
Over 1 year but within 5 years	7,581,164	6,779,315	6,740,157	6,034,239
Over 5 years	209,714	188,951	170,133	165,434
	13,190,345	11,410,897	10,040,981	8,588,395

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

23. OTHER INVESTMENTS (NON-CURRENT)

	2016 RMB'000	2015 RMB'000 (Restated)
Equity investments:		
- Available-for-sale (unlisted), at cost	620,326	483,035
- Impairment	(9,507)	(9,507)
	610,819	473,528
- Available-for-sale (listed), at fair value	759,326	844,190
	1,370,145	1,317,718
Debt investments:		
- Available-for-sale (unlisted), at fair value	350,299	344,261
- Available-for-sale (listed), at fair value	20,492	58,788
	370,791	403,049
	1,740,936	1,720,767

As at 31 December 2016, no listed available-for-sale equity investments were restricted for trading over certain periods (31 December 2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. OTHER INVESTMENTS (NON-CURRENT) (CONTINUED)

During the year, the increase in fair value of the Group's non-current available-for-sale investments recognised in other comprehensive income amounted to RMB179,118,000 (2015: increase in fair value of RMB65,246,000). In addition, upon the disposal of certain non-current available-for-sale investments during the year, a cumulative gain of RMB5,697,000 (2015: RMB22,132,000)was transferred from equity and recognised in the consolidated income statement for the year 2016.

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

As at 31 December 2016, certain unlisted available-for-sale equity investments with a carrying amount of RMB610,819,000 (2015: RMB473,528,000)were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

24. DEFERRED TAX

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

	2016 RMB'000	2015 RMB'000 (Restated)
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**2,193,409**	2,111,100
– Deferred tax asset to be recovered within 12 months	**1,015,805**	1,046,437
	3,209,214	3,157,537
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**(194,915)**	(183,373)
– Deferred tax liability to be recovered within 12 months	**(429,388)**	(345,160)
	(624,303)	(528,533)

24. Deferred tax (continued)

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

Deferred tax assets

	2016						
	Losses available for offsetting against future taxable profits RMB'000	Impairment of assets and provisions RMB'000	Unrealised loss on investments RMB'000	Accrued expenses RMB'000	Unrealised profit RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2016	30,556	2,088,630	6,107	859,486	64,766	107,992	3,157,537
Deferred tax credited /(charged) to the consolidated income statement during the year (Note 11)	49,304	(47,049)	431	(56,558)	(16,467)	(48,507)	(118,846)
Deferred tax charged to equity during the year	-	-	(6,538)	-	-	-	(6,538)
Effect of acquisition of subsidiaries	102,391	3,235	-	68,120	-	3,315	177,061
Gross deferred tax assets at 31 December 2016	182,251	2,044,816	-	871,048	48,299	62,800	3,209,214
Offset against deferred tax liabilities*							(311,376)
Net deferred tax assets at 31 December 2016							2,897,838

Deferred tax liabilities

	2016					
	Revaluation of properties RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Unrealised gain on investments RMB'000	Unrealised profit RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2016	(183,373)	(55,440)	(216,593)	-	(73,127)	(528,533)
Deferred tax credited/(charged) to the consolidated income statement during the year (Note 11)	(3,507)	(100,632)	(138)	-	76,354	(27,923)
Deferred tax credited to equity during the year	-	-	86,654	-	-	86,654
Effect of purchase of subsidiaries	(8,035)	-	-	-	(146,466)	(154,501)
Gross deferred tax liabilities at 31 December 2016	(194,915)	(156,072)	(130,077)	-	(143,239)	(624,303)
Offset against deferred tax assets*						311,376
Net deferred tax liabilitites at 31 December 2016						(312,927)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

24. DEFERRED TAX (CONTINUED)

Deferred tax assets

	2015(Restated)						
	Losses available for offsetting against future taxable profits	Impairment of assets and provisions	Unrealised loss on investments	Accrued expenses	Unrealised profit	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015	112,844	1,843,757	529	661,336	66,801	88,985	2,774,252
Deferred tax credited /(charged) to the consolidated income statement during the year (Note 11)	(74,612)	188,244	(961)	198,150	(2,035)	24,561	333,347
Deferred tax charged to equity during the year	-	-	6,539	-	-	-	6,539
Effect of acquisition of subsidiaries	-	58,791	-	-	-	-	58,791
Effect of disposal of subsidiaries	(7,676)	(2,162)	-	-	-	(5,554)	(15,392)
Gross deferred tax assets at 31 December 2015	30,556	2,088,630	6,107	859,486	64,766	107,992	3,157,537
Offset against deferred tax liabilities*							(246,094)
Net deferred tax assets at 31 December 2015							2,911,443

Deferred tax liabilities

	2015(Restated)					
	Revaluation of properties	Fair value adjustment arising from acquisition of subsidiaries	Unrealised gain on investments	Unrealised profit	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015	(188,742)	(75,844)	(169,232)	-	(83,002)	(516,820)
Deferred tax credited to the consolidated income statement during the year (Note 11)	5,369	20,404	1,578	-	9,875	37,226
Deferred tax credited to equity during the year	-	-	(48,939)	-	-	(48,939)
Gross deferred tax liabilities at 31 December 2015	(183,373)	(55,440)	(216,593)	-	(73,127)	(528,533)
Offset against deferred tax assets*						246,094
Net deferred tax liabilitites at 31 December 2015						(282,439)

*As the purpose of disclosure of financial statements, some deferred tax assets have been offset with deferred tax liabilities.

24. DEFERRED TAX (CONTINUED)

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

	2016 RMB'000	2015 RMB'000 (Restated)
Tax losses	2,643,737	2,303,636
Deductible temporary differences	2,634,053	916,258
	5,277,790	3,219,894

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

Unrecognised deferred tax assets due from the annual deductible loss:

	2016 RMB'000	2015 RMB'000 (Restated)
2016	-	103,580
2017	169,173	247,049
2018	146,804	186,043
2019	137,377	215,965
2020	1,185,525	1,550,999
2021 and after	1,004,858	-
	2,643,737	2,303,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

25. NON-CURRENT ASSETS HELD FOR SALE

After approved by board of directors, on 2 December 2015, the Company proposed to conduct an assets swap for its 100% equity interests in Shanghai Heavy Machinery Plant Co., Ltd. ("SHMP"), with the equivalent parts of 100% equity interests in Shanghai Electric Industrial Co., Ltd., 100% equity interests in Shanghai Blower Works Co., Ltd., 61% equity interests in Shanghai Denso Fuel Injection Co., Ltd., 14.79% equity interests in Shanghai Rail Traffic Equipment Development Co., Ltd held by SE Corporation. At 31 December 2015, the assets and liabilities of the above mentioned subsidiary that were transferred complies with the conditions of held for sale and have been present on current assets and current liabilities of balance sheet. By April 2016, above mentioned deal has been completed.

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

	2016 RMB'000	2015 RMB'000 (Restated)
Property, plant and equipment	-	1,180,980
Prepaid land lease payments	-	31,233
Other intangible assets	-	1,702
Inventory	-	1,337,038
Other current assets	-	1,891,203
Total	-	4,442,156

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

	2016 RMB'000	2015 RMB'000 (Restated)
Loans	-	1,208,000
Trade and other payables	-	2,388,522
Other current liabilities	-	108,332
Provisions	-	47,575
Total	-	3,752,429

26. INVENTORIES

	2016 RMB'000	2015 RMB'000 (Restated)
Raw materials	3,726,943	4,124,056
Work in progress	10,303,358	10,617,141
Finished goods	7,847,216	8,418,421
	21,877,517	23,159,618
Less: provision for impairment	(1,625,407)	(1,572,062)
	20,252,110	21,587,556

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB35,195,688,000 (2015: RMB 35,205,991,000),which included inventory net write-down of RMB830,433,000 (2015: RMB1,247,141,000).

27. CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000 (Restated)
Contract costs incurred plus recognised profits less losses	39,727,166	33,290,187
Less: progress billings	(34,653,703)	(30,164,777)
provision for impairment	(442,314)	(239,713)
Gross amount due from contract customers	4,631,149	2,885,697

As at 31 December 2016, advances received from customers for contract work included in the Group's and the Company's balances of other payables and accruals amounted to approximately RMB1,770,922,000(2015: RMB2,229,936,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

28. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000 (Restated)
Trade receivables	32,602,654	30,846,934
Less: provision for impairment	(5,463,745)	(4,825,583)
	27,138,909	26,021,351

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

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

As part of its normal business, the Group entered into an arrangement (the "Arrangement 2") to transfer certain trade receivables to banks. Under the Arrangement 2, the Group may be required to reimburse the banks for losses if any customers default. The Group is exposed to default risks of the customers after the transfer andF accordingly, it continued to recognise the full carrying amount of these trade receivables and treat the transactions as borrowings. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. All the trade receivables transferred under the Arrangement has been settled as of 31 December 2016 (2015: Nil)(Note 39).

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

	2016 RMB'000	2015 RMB'000 (Restated)
Not due	17,841,466	17,628,182
Within 3 months past due	3,791,875	3,502,372
Over 3 months but within 6 months past due	1,710,126	1,624,600
Over 6 months but within 1 year past due	1,499,447	1,298,438
Over 1 year but within 2 years past due	1,481,335	1,309,037
Over 2 years but within 3 years past due	635,792	527,189
Over 3 years past due	178,868	131,533
	27,138,909	26,021,351

28. TRADE RECEIVABLES (CONTINUED)

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

	2016 RMB'000	2015 RMB'000 (Restated)
Within 3 months	15,377,234	14,578,140
Over 3 months but within 6 months	2,137,361	2,349,177
Over 6 months but within 1 year	2,814,687	2,815,171
Over 1 year but within 2 years	3,825,669	3,588,643
Over 2 years but within 3 years	1,720,839	1,612,613
Over 3 years	1,263,119	1,077,607
	27,138,909	26,021,351

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

	2016 RMB'000	2015 RMB'000 (Restated)
At 1 January	4,825,583	4,542,320
Impairment losses charged	1,886,084	1,864,732
Purchase of subsidiaries	3,072	-
Disposal of subsidiaries	(15,425)	(35,043)
Transfer to assets of disposal group classified as held for sale	-	(528,633)
Amount written off as uncollectible	(12,332)	(13,977)
Impairment losses reversed	(1,223,237)	(1,003,816)
At 31 December	5,463,745	4,825,583

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated income statement (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

28. TRADE RECEIVABLES (CONTINUED)

The aging analysis of the trade receivables that are not considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Neither past due nor impaired	11,744,901	14,164,229
Within 3 months past due	1,152,595	3,107,457
Over 3 months but within 6 monthes	2,478,649	945,029
Over 6 months past due	78,778	511,215
	15,454,923	18,727,930

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The amounts due from related parties included in trade receivables are analysed as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
The ultimate holding company	46,150	76,647
Associates	493,410	18,075
SEC group companies	34,690	13,465
Other related companies	1,124	125,281
	575,374	233,468

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

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000 (Restated)
EUR	54,743	204,264
USD	4,550,630	3,849,354

29. DISCOUNTED BILLS RECEIVABLE

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

	2016 RMB'000	2015 RMB'000 (Restated)
Within 3 months	106,095	331,503
Over 3 months but within 6 months	72,965	44,150
Between 6 months and 1 year	15,000	-
	194,060	375,653
Less: Provision for discounted bills receivable	(5,008)	(9,700)
	189,052	365,953

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

	2016 RMB'000	2015 RMB'000 (Restated)
At 1 January	9,700	4,763
Provision	-	4,937
Impairment losses reversed	(4,692)	-
At 31 December	5,008	9,700

Provision for and reversal of impairment of undiscounted notes receivable were included in the income statement as administrative expenses (Notes 8).

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

	2016 RMB'000	2015 RMB'000 (Restated)
Associates	-	78,896
SEC group companies	31,448	122,354
	31,448	201,250

The annual interest rates of discounting services provided to related parties ranged from 2.97% to 6.87% for the year ended 31 December 2016 (2015: 4.11% to 7.59%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

29. DISCOUNTED BILLS RECEIVABLE(CONTINUED)

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

	2016 RMB'000	2015 RMB'000 (Restated)
Associates	-	83,331
SEC group companies	-	79,529
	-	162,860

Discounted bills receivable relate to bills discounted by SEC group companies and the associates of the Group at the Finance Company. For those bills endorsed by banks, the banks have an irrevocable liability to effect payment when the bills fall due. With regard to commercial acceptance bills, all of them are with recourse to the issuers and endorsers.

30. BILLS RECEIVABLE

A maturity profile of the bills receivable as at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Within 3 months	**2,174,932**	2,186,257
Over 3 months but within 6 months	**2,870,029**	2,955,088
Over 6 months but within 1 year	**1,608,204**	1,584,968
	6,653,165	6,726,313

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

	2016 RMB'000	2015 RMB'000 (Restated)
Associates	**15,115**	58,548
SEC group companies	**126,977**	34,478
	142,092	93,026

The balances are unsecured, non-interest-bearing and repayable as and when the bills fall due.

Included in the balance of bills receivable as at 31 December 2016 was an amount of RMB175,731,000(2015: RMB201,429,000) related to bills receivable discounted by the Group companies with Finance Company and nil (2015: Nil) related to bills receivable discounted by the Group companies with outside financial institutions (Note 39). The balance was thus recorded as bills receivable in the Group's consolidated statement of financial position as at 31 December 2016.

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000 (Restated)
Prepayments	8,203,780	8,451,384
Deposits and other receivables	1,860,823	1,219,556
Dividend receivables	61,042	83,824
Other current assets	679,129	683,170
Due from the ultimate holding company	5	2,894
Amount due from joint ventures	3,005	-
Due from associates	51,446	45,658
Due from SEC group companies	127,134	50,978
Due from other related companies	52,470	122,121
	11,038,834	10,659,585
Less: Provision for deposits and other receivables	(143,458)	(78,809)
	10,895,376	10,580,776

The balances due from related parties are mainly from purchases of property, plant and equipment, non-interest-bearing and unsecure.

The movements in the provision for impairment of deposits and other receivables are as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
At 1 January	78,809	82,378
Impairment losses recognised	66,752	6,748
Transfer out due to disposal of subsidiaries	(72)	(1,019)
Impairment losses reversed	(2,031)	(3,845)
Assets transferred into held for sale	-	(5,453)
At 31 December	143,458	78,809

Provision for and reversal of bad debts of advances to suppliers, down payment and other receivables were included in the income statement as administrative expenses. (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

32. INVESTMENT (CURRENT)

	2016 RMB'000	2015 RMB'000 (Restated)
Equity investments:		
- At fair value through profit or loss (listed)	33,675	53,152
- Available-for-sale (listed), at fair value	104,998	316,003
	138,673	369,155
Debt investments:		
- At fair value through profit or loss (listed)	40,921	3,510
- Available-for-sale (unlisted), at fair value	-	31,270
	40,921	34,780
Investment funds:		
- At fair value through profit or loss (listed)	116,401	32,867
- Available-for-sale (listed), at fair value	1,914,702	1,817,150
	2,031,103	1,850,017
Investment products:		
- Available-for-sale, at fair value	1,269,681	1,226,368
Reverse repurchase agreements	6,314,740	4,591,840
	9,795,118	8,072,160

During the year, the increase in fair value in respect of the Group's current available-for-sale investments recognised in other comprehensive income amounted to RMB318,014,000(2015: increase in fair value of RMB1,029,009,000). In addition, upon the disposal of certain current available-for-sale investments during the year, a cumulative gain of RMB161,340,000(2015: a cumulative gain of RMB612,552,000) was transferred from equity and recognised in the consolidated income statement.

As at 31 December 2016, no listed available-for-sale equity investments was restricted for trading over certain periods of less than one year (2015: Nil).

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
				(Restated)
Convertible debenture arrangements	706,797	-	659,923	-
Forward exchange contracts - cash flow hedges	263	(26,788)	290	(25,507)
Forward exchange contracts - non-hedging	298	-	4,592	-
	707,358	(26,788)	664,805	(25,507)
Portion classified as non-current	-	-	-	-
Current portion	707,358	(26,788)	664,805	(25,507)

Forward exchange contracts –– cash flow hedges

Forward exchange contracts are designated as hedging instruments in respect of forecast future sales to overseas customers of which the Group and the Company has firm commitments. The forward exchange contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

The terms of the forward exchange contracts have been negotiated to match the expected future sales. The cash flow hedges relating to expected future monthly sales in 2016 and 2017 were assessed to be highly effective and a net loss of RMB17,890,000(net of tax effect) was included in the hedging reserve as follows:

	2016	2015
	RMB'000	**RMB'000**
		(Restated)
Total fair value losses included in the hedging reserve	(1,526)	(26,157)
Deferred tax impact on fair value change	6,538	6,539
Reclassified from other comprehensive income and recognised in the consolidated income statement	(22,902)	-
Net losses on cash flow hedges	(17,890)	(19,618)

Forward exchange contracts –– non - hedging

In addition, the Group has entered into several forward exchange contracts to manage its exchange rate exposures. These forward exchange contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Decreases in the fair value of non-hedging financial derivatives amounting to RMB1,312,000(2015: increases in the fair value of RMB2,237,000).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2016 are recognised in the consolidated income statement in the period or periods during which the hedged forecast transaction affects the consolidated income statement. This is generally within 12 months from the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (five to ten years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016 RMB'000	2015 RMB'000 (Restated)
Cash and bank balances	26,100,770	31,552,163
Time deposits	14,120,037	6,049,824
	40,220,807	37,601,987
Less: Restricted deposits	(749,901)	(632,092)
Cash and bank	39,470,906	36,969,895
Due from the Central Bank	3,197,369	3,063,635
Total	42,668,275	40,033,530

As at 31 December 2016, RMB749,901,000(2015: RMB632,092,000) were held as held at bank as reserve for issuance letter of credit deposit, bank acceptance deposit and letter of guarantee deposit.

As at 31 December 2016, non-restricted time deposits with original maturity over three months when acquired amounted to RMB9,677,301,000(2015: RMB3,375,837,000) is included in cash and cash equivalents. The transactions related to those non-restricted time deposits are stated as investing activities in the consolidated statement of cash flows.

The amount due from the Central Bank as at 31 December 2016 comprised deposit of RMB3,107,666,737(2015: RMB2,871,775,339) and USD12,931,000 (equivalent to RMB89,707,347) (2015: USD29,546,000, equivalent to RMB191,859,906) with the Central Bank, including a statutory reserve of 7% and 5% (2015: 7.5% and 5%) for RMB and foreign currency, respectively, on customer deposit held by Finance Company.

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

The Group's and the Company's cash and bank balances and time deposits are denominated in RMB at the end of each reporting date, except for the following:

	2016		2015 (Restated)	
	Original currency in '000	RMB'000	Original currency in '000	RMB'000
Cash and bank balances:				
United States dollars ("USD")	303,692	2,106,406	227,672	1,478,406
Euro ("EUR")	57,436	419,635	133,101	944,406
Japan yen ("JPY")	86,167	5,132	9,584,546	516,368
Hong Kong dollars ("HKD")	39,138	35,008	247,071	206,991
Indian rupee ("INR")	69,957	7,146	469,339	45,950
Vietnam dong ("VND")	1,207,738	368	154,762,207	45,911
Malaysian ringgit ("MYR")	1,779	2,763	18,119	27,432
Indonesian rupiah ("IDR")	1,169,361	600	2,195,733	1,034
Other	391,612	56,616	69,234	35,500
Time deposits:				
USD	16,015	111,023	127,000	824,687
JPY	-	-	4,525,814	243,828
Other	450,000	45,969	-	-
Central bank reserve：				
USD	12,931	89,702	29,546	191,860
Restricted deposits：				
USD	2,169	15,039	1,277	8,291

RMB is not freely convertible into other currencies. However, according to Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations in China, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

35. TRADE PAYABLES

The ageing analysis, based on the invoice date, of the trade payables as at balance sheet dates is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Within 3 months	18,623,598	19,693,160
Over 3 months but within 6 months	3,080,371	3,468,112
Over 6 months but within 1 year	3,129,877	2,734,548
Over 1 year but within 2 years	4,366,096	1,342,441
Over 2 years but within 3 years	719,307	766,339
Over 3 years	780,206	603,373
	30,699,455	28,607,973

The amounts due to related parties included in trade payables are analysed as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
The ultimate holding company	-	1,768
Associates	193,111	244,228
SEC group companies	928,497	499,852
Other related companies	11,394	30,423
	1,133,002	776,271

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The amounts due to related parties are negotiated on credit terms similar to those offered by the major suppliers of the Group.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000 (Restated)
USD	224,703	683,127
JPY	579,127	419,457
EUR	37,530	51,263
GBP	7,568	1,202

36. BILLS PAYABLE

The aging analysis of the Group's bills payable as at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Within 3 months	3,305,433	1,534,676
Over 3 months but within 6 months	1,888,329	1,725,150
Over 6 months but within 1 year	719,272	179,586
	5,913,034	3,439,412

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

	2016 RMB'000	2015 RMB'000 (Restated)
Associates	97,800	31,500
Joint ventures	50	-
SEC group companies	333,394	77,403
Other related companies	-	5,000
	431,244	113,903

Bills payable are non-interest-bearing.

37. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000 (Restated)
Advances from customers	43,588,677	39,024,534
Other payables	5,327,740	4,336,048
Government grants	426,528	506,713
Dividend payable to non-controlling shareholders	319,073	407,229
Accruals	3,179,471	4,852,676
Bonds payable due within one year	-	399,834
Payroll payable	2,493,337	2,480,727
Due to the ultimate holding company	979,449	123,639
Due to associates	28,886	35,010
Due to SEC group companies	32,713	8,599
Due to other related companies	144,112	243,574
	56,519,986	52,418,583

The Group's balance with related parties isunsecured, non-interest-bearing and repayable on demand or within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

38. CUSTOMER DEPOSITS

	2016 RMB'000	2015 RMB'000 (Restated)
Deposits from the ultimate holding company	105,122	2,970,492
Deposits from associates	143,807	114,159
Deposits from SEC group companies	2,511,053	2,516,521
Deposits from other related companies	55	9,515
Deposits from non-related parties	161,472	93,644
	2,921,509	5,704,331
Repayable:		
On demand	2,595,379	4,974,079
Within 3 months	199,000	127,000
Over 3 months but within 1 year	127,130	603,252
	2,921,509	5,704,331

The annual interest rates of customer deposits provided to related parties range from 0.35% to 3.50 % (2015: 0.35% to 3.75%).

39. BORROWINGS

	2016			2015(Restated)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current bank loans						
- Unsecured	0.5-7.0	2017	1,912,310	1.80-5.29	2016	1,041,242
- Secured	3.92-4.79	2017	180,000	4.69	2016	83,000
- Trade receivables factoring	4.13-4.22	2017	54,000	4.57	2016	30,000
Current portion of long-term bank loan						
- Unsecured	-	-	-	5.84	2016	39,283
- Unsecured	-	-	-	5.53	2016	61,560
- Unsecured	-	-	-	5.35	2016	50,968
- Unsecured	4.28	2017	214,922	4.28	2016	10,000
- Unsecured	-	-	-	3M HIBOR +2.30	2016	586,460
- Secured	3M LIBOR+3.65	2017	49,491	3M LIBOR+3.65	2016	45,455
			2,410,723			1,947,968
Non-current bank loans						
- Unsecured	4.28	2018	228,000	4.28	2018	38,000
- Unsecured	4.28	2019	508,344	-	-	-
- Unsecured	4.51	2019	200,000	-	-	-
- Secured	4.75	2020	59,650	-	-	-
- Secured	-	-	-	3M LIBOR+3.65	2018	84,729
			995,994			122,729
			3,406,717			2,070,697

	2016 RMB'000	2015 RMB'000 (Restated)
Analysed into:		
Bank loans repayable		
within one year or demand	2,410,723	1,947,968
in the second year	228,000	-
in the third to fifth years inclusive	767,994	122,729
beyond five years	-	-
	3,406,717	2,070,697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

39. BORROWINGS (CONTINUED)

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

	2016		2015(Restated)	
	Original currency in '000	RMB equivalent RMB'000	Original currency in '000	RMB equivalent RMB'000
Foreign currency borrowing balances				
USD	7,134	49,491	23,248	150,963
EUR	7,902	57,738	15,399	109,259
MYR	68,600	15,527	68,600	103,860
HKD	-	-	700,000	586,460
GBP	2,648	22,534	-	-

As at 31 December 2016, certain of the Group's bank loans are secured by mortgages over certain of the Group's buildings with a net carrying amount of approximately RMB476,265,000(31 December 2015: building with net carrying amount RMB340,585,000) (Note 14).

As at 31 December 2016, accounts receivable with a net carrying amount of RMB72,624,000 (2015:RMB42,753,000) were factored with recourse to obtain certain bank facilities of RMB54,000,000(2015:RMB30,000,000) (Note 28).

	Carrying amount		Fair values	
	2016 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000 (Restated)
Floating rate bank loans	-	84,729	-	79,536
Fixed rate bank loans	995,994	38,000	887,609	37,388
	995,994	122,729	887,609	116,924

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.75% (2015: 4.75%) and are within level 2 of the fair value hierarchy.

40. PROVISIONS

	Product warranty RMB'000	Onerous contracts and legal provision RMB'000	Early retirement benefits and staff severance costs RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016(Restated)	1,438,412	1,635,101	167,318	165,379	3,406,210
Additional provisions	1,074,077	1,113,097	33,825	61,795	2,282,794
Reversal during the year	(191,484)	(155,303)	-	-	(346,787)
Amounts utilised during the year	(524,741)	(810,174)	(49,212)	(87,066)	(1,471,193)
Deduction due to disposal of subsidiaries	(24,182)	-	-	-	(24,182)
At 31 December 2016	1,772,082	1,782,721	151,931	140,108	3,846,842
Less: current portion repayable within 12 months	(1,772,082)	(1,782,721)	(18,494)	(140,108)	(3,713,405)
Non-current portion	-	-	133,437	-	133,437

Product warranty provision

The Group provides warranties ranging from one to two years to its customers on certain products and undertakes to repair or replace items that fail to perform satisfactorily. The amount of the provision for warranties is estimated based on the sales volume and past experience on the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Onerous contracts provision

The Group has entered into several contracts in respect of the sale of power equipment and nuclear power equipment. Under these contracts, the unavoidable costs of meeting the obligations have exceeded the economic benefits expected to be received as at 31 December 2016. Provision has been made for these onerous contracts based on the estimated minimum net cost of exiting from the contracts.

Early retirement benefits and staff severance costs

The Group implemented plans for early retirement, termination of employment or offer to encourage voluntary redundancy for certain employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

41. BONDS

	2016			2015(Restated)		
	Effective interest rate (%)	Due date	RMB'000	Effective interest rate (%)	Due date	RMB'000
Bonds payable due within one year						
- 12 Electric bond 01(a)	-	-	-	4.70	2016	399,834
			-			399,834
Bonds payable due after one year						
- 12 Electric bond 02(a)	5.03	2018	1,597,662	5.03	2018	1,595,833
- Electric convertible bond (b)	5.03	2021	5,175,913	5.03	2021	4,951,447
- Electric euro bond (c)	1.19	2020	4,374,802	1.19	2020	4,245,523
			11,148,377			10,792,803
			11,148,377			11,192,637

	2016 RMB'000	2015 RMB'000 (Restated)
Analysed as:		
Within one year or on demand	-	399,834
Within two years	1,597,662	-
Within three to five years, including head and tail	9,550,715	5,841,356
After five years	-	4,951,447
	11,148,377	11,192,637

41. BONDS (CONTINUED)

	2016		2015(Restated)	
	Original currency in '000	**RMB equivalent RMB'000**	**Original currency in '000**	**RMB equivalent RMB'000**
Balance of bonds payable denominated in foreign currency				
EUR	598,730	4,374,802	598,365	4,245,523
	598,730	4,374,802	598,365	4,245,523

(a) Approved by the China Securities Regulatory Commission ("CSRC") (Zheng Jian Xu Ke [2012]1703), on 27 February 2013, the Company issued three-year fixed rate bonds with an offering size of RMB400 million and coupon rate of 4.5% and five-year fixed rate bonds with an offering size of RMB1,600 million and coupon rate of 4.9%, as the first tranche. The Bonds were issued at par value and the interest is settled on an annual basis with the principal payable in full when due. No guarantee was provided for the bonds. The maturity dates of the Bonds are 27 February 2016 and 27 February 2018, respectively. The Group has paid the principal and interest of 12 Electric bond 01 on 29 February 2016.

(b) On 2 February 2015, the Group issued convertible bonds due in 2021 amounting to RMB6 billion. Such convertible bonds could be converted into the Company's A share at RMB10.66 per share since 3 August 2015 and RMB 10.65 per share since 28 November 2016. Interest is accrued on a yearly basis and the principle and the interest repaid upon maturity. Interest of such bonds is calculated based on a simple-interest calculation annually and the nominal interest rates are: 0.2% for the first year, 0.5% for the second year, 1.0% for the third year, 1.5% for the fourth year, 1.5% for the fifth year and 1.6% for the sixth year. The principal is repaid upon maturity by deducting issuance costs of the convertible bonds amounting to RMB6 billion, liability of RMB4,745,903 thousand was charged into bonds payable and equity of RMB1,214,919 thousand was charged into capital surplus.

(c) On 22 May 2015, the Group's wholly-owned subsidiary, SEC Newage Co., Ltd. issued a bond of EUR600 million, eurobonds, secured by the Group, at Ireland Stock Exchange, with a term of 5 years and annual interest rate of 1.125%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

42. OTHER NON-CURRENT LIABILITIES

	2016 RMB'000	2015 RMB'000 (Restated)
Relocation compensation	217,994	248,904
Finance leases deposits	780,830	489,948
Liabilities for sales with buyback agreements	493,408	-
Non-interest-bearing loans	1,258	1,258
R&D Subsidies	50,668	52,623
Others	4,672	97,977
Due to SEC group companies	23,163	1,799
Due to associates	51,362	43,441
	1,623,355	935,950

43. SHARE CAPITAL

Shares

	2016 RMB'000	2015 RMB'000
Registered, issued and fully paid:		
A shares of RMB1.00 each	10,458,244	9,851,393
H shares of RMB1.00 each	2,972,912	2,972,912
Total	13,431,156	12,824,305

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

	Number of shares in issue RMB'000	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 31 December 2014, 1 January 2015	12,823,627	12,823,627	3,606,286	16,429,913
Additions	678	678	7,809	8,487
At 31 December 2015, 1 January 2016	12,824,305	12,824,305	3,614,095	16,438,400
Additions	606,851	606,851	4,586,573	5,193,424
31 December 2016	13,431,156	13,431,156	8,200,668	21,631,824

44. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital reserve

The capital reserve of the Group includes the share premium and the non-distributable reserves of the Company and its subsidiaries recognised in accordance with the accounting and financial regulations of the PRC.

Contributed surplus

The Group's contributed surplus represents the excess of (i) the Company's cost of investments in the net assets of subsidiaries and an associate acquired from SE Corporation as part of the Group reorganisation over (ii) the aggregate amount of the paid-up capital of these subsidiaries attributable to the Group and the carrying value of the Group's investment in the associate upon the establishment of the Company.

Surplus reserves

In accordance with the PRC Company Law and the Group companies' articles of association, the Company and its subsidiaries are required to transfer a certain percentage of their net profits after tax to the surplus reserves, comprising the statutory surplus reserve and discretionary surplus reserve. Subject to certain restrictions set out in the relevant PRC regulations and in the Group companies' articles of association, the statutory surplus reserve may be used either to offset losses, or to be converted to share capital, and the discretionary surplus reserve is set aside to cover losses. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

Distributable reserves

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB10,085,366,000(2015: RMB8,369,782,000).

The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with generally accepted accounting principles in the PRC and those under HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

45. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
		(Restated)
Cash flows from operating activities		
Profit before tax	5,274,462	5,999,768
Adjustments for:		
Finance Company:		
Interest income from banks and other financial institutions	(283,648)	(405,799)
Interest income on loans receivable and discounted bills receivable	(239,981)	(412,162)
Finance lease income	(729,593)	(440,167)
Interest income on non-restricted time deposits with original maturity of over three months when acquired	(153,374)	(111,307)
Interest income on debt investments	(16,349)	(31,140)
Dividend income from equity investments and investment funds	(172,002)	(85,486)
Gains on disposal of items of property, plant and equipment, net	(13,122)	(1,002)
Losses on disposal of other intangible assets, net	-	141
Gains on disposal of land use rights	(1,694)	-
Gains on disposal of subsidiaries	(222,690)	(926,018)
(Gains)/Losses on disposal of associates	(124,468)	36,167
Investments at fair value through profit or loss:		
Unrealised fair value gains, net	(199)	58,378
Realised fair value gains, net	(13,955)	(125,590)
Derivative financial instruments - transactions not qualifying as hedges:		
Unrealised fair value gains, net	1,312	(2,237)
Realised gains on available-for-sale investments (transferred from equity)	(167,037)	(634,684)
Other gains	(34,901)	(4,263)
Depreciation of property, plant and equipment	1,276,357	1,411,935
Depreciation of investment properties	25,516	21,758
Amortisation of prepaid land lease payments	88,487	53,039
Amortisation of intangible assets	114,106	148,071
Depreciation of other non-current assets	22,191	66,533
Early retirement benefits and staff severance costs	30,754	208,262
Write-down of inventories to net realisable value	830,433	1,247,141
	216,143	71,570

45. CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
		(Restated)
Cash flows from operating activities (continued)		
Share of profits of joint ventures	(206,617)	(15,682)
Share of profits of associates	(589,917)	(534,118)
Impairment of trade receivables and other receivables	727,568	863,817
Impairment of loans receivable	27,174	27,753
Impairment of lease receivables	127,835	101,424
Reversal of impairment of discounted bills receivable	(4,692)	4,937
Impairment of items of property, plant and equipment	103,596	133,953
Impairment of goodwill	93,486	-
Impairment of joint venture	444,098	-
Provision for product warranty	882,593	855,568
Provision for onerous contracts	957,794	(59,689)
Other provisions	61,795	95,817
Finance costs	500,674	618,667
Exchange gains, net	(154,081)	(153,453)
	2,971,306	1,938,994
Decreasein inventories	795,992	244,104
Increase in construction contracts	(1,617,285)	(901,887)
Increase in trade receivables and other receivables	(2,656,554)	(2,845,832)
Decrease in other non-current assets	23,047	6,727
Increase in trade payables, bills payable, other payables and accruals	7,954,087	6,640,885
Utilisation of product warranty provision and other provisions	(1,509,125)	(980,809)
Cash generated from operations	11,452,073	10,173,520

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

46 CONTINGENT LIABILITIES AND FINANCIAL GUARANTEES

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

	2016 RMB'000	2015 RMB'000 (Restated)
Guarantees given to banks in connection with facilities granted to:		
- Associates	34,201	96,105
Guarantees given to banks in connection with facilities utilised by:		
- Associates	5,900	-
Non-financial guarantee letters issued by Finance Company on behalf of:		
- Associates	3,690	4,163

(a) As of 31 December 2016, non-financial guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB21,723,391,000 (2015: RMB22,660,881,000).

(b) As of 31 December 2016, contingent liabilities amounted to RMB36,922,000 relating to pending lawsuits and arbitration (2015: RMB5,267,000).

47. LEASING

(a) As lessor

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

As at 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Within one year	79,750	82,295
In the second to fifth years, inclusive	242,311	240,300
After five years	13,249	7,247
	335,310	329,842

47. LEASING (CONTINUED)

(b) As lessee

The Group leases certain properties, plant and machinery and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 50 years, while those for plant and machinery are for terms ranging from 1 to 20 years and those for motor vehicles are for a term of one year.

As at 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Within one year	91,229	98,481
In the second to fifth years, inclusive	188,517	316,014
After five years	112,055	56,228
	391,801	470,723

48. COMMITMENTS

As at 31 December 2015, the Group had the following capital commitments:

	2016 RMB'000	2015 RMB'000 (Restated)
Contracted, but not provided for:		
In respect of the acquisition of		
- Land and buildings	2,652	30,446
- Plant and machinery	1,322,310	831,807
In respect of capital contribution to		
- Associate	-	57,600
	1,324,962	919,853
Authorised, but not contracted for:		
In respect of the acquisition of		
- Plant and machinery	188,920	81,113
Investment in the following companies		
– Associate	495,000	-
	683,920	81,113
	2,008,882	1,000,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

49. BUSINESS COMBINATION INVOLVING ENTERPRISES UNDER COMMON CONTROL

(a) Subsidiaries

	Place of main operations	Place of registration	Nature of business	Shareholding (%)		Registered capital (RMB)
				Direct	Indirect	
Shanghai Blower Works Co., Ltd. ("SBW")	Shanghai	Shanghai	Manufacturing	100	-	239,761,238
Shanghai Electronic Industrial Co., Ltd. ("SEI")	Shanghai	Shanghai	Investments	100	-	108,643,829
Shanghai Denso Fuel Injection Co., Ltd. ("SDFI")	Shanghai	Shanghai	Manufacturing	61	-	223,143,066
Shanghai Electric Inner Mongolia Qingcheng Industrial Co., Ltd. ("SEIMQI")	Inner Mongolia	Inner Mongolia	Investments	-	100	200,000,000
Shanghai Fastener Machinery Factory ("SFMF")	Shanghai	Shanghai	Manufacturing	-	100	3,666,000
Shanghai Cyeco Environmental Technology Co., Ltd. ("SCET")	Shanghai	Shanghai	Manufacturing	-	65	50,000,000

49. BUSINESS COMBINATION INVOLVING ENTERPRISES UNDER COMMON CONTROL (CONT'D)

(b) Business combination involving enterprises under common control in the current year

Combined party	Proportion acquired	Basis of business combination involving enterprises under common control	Combination date	Basis for determining the combination date	Revenue of the combined party for the period from 1 January 2016 to the combination date	Net profit of the combined party for the period from 1 January 2016 to the combination date	Revenue of the combined party for the year ended 31 December 2015	Net profit of the combined party for the year ended 31 December 2015
SEI	100%	Note	27 April 2016	Framework with equity replacement completed on 27 April 2016	15,930	374	53,335	111,612
SBW	100%	Note	27 April 2016	Framework with equity replacement completed on 27 April 2016	303,732	247	1,018,022	(120,312)
SDFI	61%	Note	27 April 2016	Framework with equity replacement completed on 27 April 2016	148,636	35,363	510,477	104,945
SEIMQI	100%	Note	27 April 2016	Framework with equity replacement completed on 27 April 2016	-	(47)	-	10,709
SFMF	100%	Note	27 April 2016	Framework with equity replacement completed on 27 April 2016	1,295	(1,312)	9,729	(20,418)
SCET	65%	Note	27 April 2016	Framework with equity replacement completed on 27 April 2016	7,045	22	22,463	3,334

Note：These companies are all controlled by SEC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

49. BUSINESS COMBINATION INVOLVING ENTERPRISES UNDER COMMON CONTROL (CONT'D)

(c) Assets and liabilities of the combined parties as at 31 December 2015 are analysed as follows:

	Carrying amount as at 31 December 2015					
	SBW	SDFI	SEI	SCET	SFMF	SEIMQI
Cash and bank	152,967	440,865	108,750	42,787	1,913	73
Accounts receivable	606,026	34,210	53,667	10,254	5,615	15
Prepayments, deposits and other receivables	25,951	704	-	1,165	27	-
Inventories	432,821	125,444	-	8,422	6,382	-
Other investments	-	-	1,085	-	-	157,510
Investment in joint venture	8,743	-	-	-	-	-
Investment in associate	-	-	1,102,243	-	-	
Investment properties	-	-	249,238	-	-	-
Property, plant and equipment	134,097	246,004	4,510	1,267	5,223	2
Intangible assets	3,061	-	-	1,849	-	-
Prepaid land lease payments	112,619	35,921	-	-	-	-
Other assets	51,415	30,826	60,043	-	1,300	-
Borrowings	(217,000)	-	-	5,253	-	-
Accounts payable	(528,208)	(83,075)	(38,391)	(2,513)	(17,440)	(40,189)
Other payables and accruals	(271,624)	(80,000)	(105,591)	(10,152)	(103)	-
Other liabilities	(225,854)	(39,863)	(4,518)	(463)	(4)	(71)
Net assets	285,014	711,036	1,431,036	57,869	2,913	117,340
Less: Minority interests	-	-	-	-	-	-
Net assets acquired	285,014	711,036	1,431,036	57,869	2,913	117,340

49. BUSINESS COMBINATION INVOLVING ENTERPRISES UNDER COMMON CONTROL (CONT'D)

(d) Assets and liabilities of the combined parties as at the combination date are analysed as follows:

	Carrying amount as at the combination date					
	SBW	SDFI	SEI	SCET	SFMF	SEIMQI
Cash and bank	90,894	463,361	167,255	39,421	1,677	40
Accounts receivable	756,055	57,973	54,315	7,655	5,223	-
Prepayments, deposits and other receivables	53,199	-	-	-	2	-
Inventories	341,141	117,080	-	13,000	5,268	-
Other investments	-	-	1,085	-	-	157,510
Investment in associate	8,743	-	1,102,243	-	-	-
Investment properties	-	-	243,185	-	-	-
Property, plant and equipment	129,909	237,222	4,163	1,171	4,686	2
Intangible assets	2,771	-	-	1,796	-	-
Prepaid land lease payments	112,146	35,645	-	-	-	-
Other assets	38,773	32,614	7,664	6,869	2,996	-
Borrowings	(217,000)	-	-	-	-	-
Accounts payable	(577,904)	(75,224)	(13,454)	(2,751)	(18,057)	(40,189)
Other payables and accruals	(240,292)	(80,000)	(106,752)	(8,337)	(105)	-
Other liabilities	(199,089)	(42,836)	(28,294)	(932)	(89)	(71)
Net assets	299,346	745,835	1,431,410	57,892	1,601	117,292
Less: Minority interests	-	-	-	-	-	-
Net assets acquired	299,346	745,835	1,431,410	57,892	1,601	117,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

50 BUSINESS COMBINATIONS INVOLVING ENTERPRISES NOT UNDER COMMON CONTROL

(a) Main subsidiaries involved in business combinations involving enterprises not under common control in the current year

Acquiree	Time of acquisition	Acquisition cost RMB'000	Equity obtained (%)	Way of acquisition	Acquisition date	Determination basis for acquisition date	Acquiree's revenue from the acquisition date to end of year RMB'000	Acquiree's net profit from the acquisition date to end of year RMB'000	Acquiree's cash flows from operating activities from the acquisition date to end of year RMB'000	Acquiree's net cash flows from the acquisition date to end of year RMB'000
TEC4AERO GmbH	20 October 2016	1,299,438	100%	Cash	20 October 2016	Transfer of control	298,407	5,360	-	(8,342)

(b) Details of the costs of combination and goodwill recognised are as follows:

	TEC4AERO GmbH
Costs of combination -	
Cash	1,299,438
Fair value of non-cash assets transferred	-
Fair value of liabilities incurred or assumed	-
Total cost of combination	1,299,438
Less: Fair value share of identifiable net assets obtained	(259,092)
Goodwill	1,040,346

Fair value of non-cash assets transferred and fair value of liabilities incurred or assumed are determined by the Group using valuation technique.

50 BUSINESS COMBINATIONS INVOLVING ENTERPRISES NOT UNDER COMMON CONTROL(CONT'D)

(c) Acquiree's assets and liabilities at the acquisition date are analysed below:

TEC4AERO GmbH	Fair value at the acquisition date RMB'000	Carrying amount at the acquisition date RMB'000	Carrying amount at 31 December 2015 RMB'000
Cash and bank	64,916	64,916	181,644
Financial assets at fair value through profit or loss	4,244	4,244	365
Accounts receivable	68,816	68,816	92,294
Inventories	294,889	294,889	259,491
Other current assets	43,889	43,889	39,482
Property, plant and equipment	42,414	42,414	44,754
Intangible assets	444,075	87,694	90,797
Other non-current assets	179,144	179,144	3,407
Less: Borrowings	(89,898)	(89,898)	(99,506)
Accounts payable	(139,475)	(139,475)	(93,280)
Employee benefits payable	(91,280)	(91,280)	(81,398)
Deferred tax liabilities	(261,420)	(154,500)	(19,953)
Other liabilities	(301,222)	(301,222)	(340,439)
Net assets	259,092	9,631	77,658
Less: Minority interests	-	-	-
Net assets obtained	259,092	9,631	77,658

Fair value of assets and liabilities of TEC4AERO GmbH at the acquisition date are determined by the Group using valuation technique. The valuation method and critical assumptions used for main assets are as follows:

The valuation method used for intangible assets is earnings method. Critical assumptions used are as follows:

	Critical assumptions
Sales growth rate	1%~12%
Sales gross margin	21.2%~23.2%
EBIT margin	6.3%~9.7%
Working capital return rate	0.84%
Discount rate	8%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

51 SALES OF SUBSIDIARY EQUITY

(a) On 27 April 2016, the Company disposed its wholly-owned subsidiary, Shanghai Heavy Machinery Plant Co., Ltd. (Hereinafter "Shanghai Heavy"). Therefore, the Group excluded Shanghai Heavy from the consolidation scope since the date of losing control.

Information related to the disposal of subsidiaries in the period are summarised below:

	Amount **RMB'000**
Consideration obtained from disposal of subsidiaries	-
Less: Net assets disposed	525,690
	525,690

(b) On 26 May 2016, Shanghai Mechanical and Electrical Industry Co., Ltd ("SMEIC"), a subsidiary of the Company, disposed its wholly-owned subsidiary, Shanghai Shenweida Machinery Co., Ltd . (Hereinafter "Shenweida"). Therefore, the Group excluded Shenweida from the consolidation scope since the date of losing control.

Information related to the disposal of subsidiaries in the period are summarised below:

	Amount **RMB'000**
Consideration obtained from disposal of subsidiaries	134,717
Less: Net assets disposed	3,198
Share of losses payable to the acquirer and attributable to the Group from the valuation date to the disposal date	(2,578)
	135,337

52. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of SE Corporation, which is a state-owned enterprise subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities and other state-owned entities.

(1) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2016 RMB'000	2015 RMB'000 (Restated)
Purchase of materials from:		
Associates	2,589,601	2,913,380
SEC group companies	373,988	470,100
Other related companies	1,466,074	570,032
	4,429,663	3,953,512
Sales of materials to:		
The ultimate holding company	853	-
Associates	60,915	99,000
SEC group companies	388,211	14,423
Other related companies*	4,504,628	4,511,653
	4,954,607	4,625,076
Construction contracts from:		
Other related companies	1,450,626	374,672
Sale of scrap and spare parts to:		
Associates	1,897	10,262
Purchases of services from:		
Associates	3,681	-
SEC group companies	16,802	24,816
Other related companies	27,301	23,739
	47,784	48,555
Provision of services to:		
The ultimate holding company	2,336	68,101
Associates	56,394	25,000
SEC group companies	1,027	68
Other related companies	1,146	-
	60,903	93,169
Purchases of equipment from:		
SEC group companies	1,971	820
Disposal of property, plant and equipment to:		
The ultimate holding company	-	15

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

52. RELATED PARTY TRANSACTIONS (CONTINUED)

(1) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year(continued):

* As the financial performance of certain subsidiaries of Group collective is expected to be significant to the consolidated financial performance of the Group of 2015, Shanghai Electric Power Co., Ltd ("Shanghai Electric Power"), a minority shareholder that have significant influence over those subsidiaries, is regarded as a related party of the Group since 1 January 2015. The transactions and balance with this related party for the year ended 31 December 2016 have been included on the previous page.

	Note	2016 RMB'000	2015 RMB'000
			(Restated)
Rental income from:			
Associates		10,181	22,197
SEC group companies		3,286	-
Other related companies		1,383	-
		14,850	22,197
Rental fee to:			
The ultimate holding company		5,184	27,743
SEC group companies		2,073	2,463
		7,257	30,206

Note: The rental income and rental fee were based on mutually agreed terms with reference to the market rates.

52. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As at 31 December 2016, the Group provided guarantee for associates including Nabtesco Precision, Nabtesco Corporation and Shanghai Nabtestco Management Co., Ltd. with a cap of RMB37,290,000. As at 31 December 2016, the Group actual guarantee amounted to JPY297,000,000 and RMB16,500,000 and SEC provided RMB135,000,000 of guarantee to Shanghai Blower Works Co., Ltd., an affiliate of the Group and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB3,690,000 (31 December 2015: RMB4,163,000).

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

	2016 RMB'000	2015 RMB'000 (Restated)
Interest expenses for customer deposits:		
The ultimate holding company	3,754	3,609
Associates	748	1,132
SEC group companies	6,323	62,151
Other related companies	9	1,892
	10,834	68,784
Interest income for loans and bills discounted:		
The ultimate holding company	41,993	105,687
Associates	3,305	6,755
SEC group companies	97,669	35,692
Other related companies	1,132	41,427
	144,099	189,561

Interest rates for customer deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by Central Bank.

(4) Balances due from/to related parties

The balances due from/to related parties mainly resulted from loans, trading transactions, customer deposits, discounted bills receivable and miscellaneous amounts reimbursable by/to the related parties. Further details are set out in Notes 22, 28, 29, 30, 31, 35, 36, 37, 38 and 42, respectively.

(5) Transactions and balances with other state-owned entities

The Group enters into extensive transactions covering purchases of materials, property, plant and equipment, receiving of services, sale of goods, rendering of services and making deposits and borrowings with state-owned entities, other than the SEC group companies, in the normal course of business at terms comparable to those with other non-state-owned entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

52. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2016 RMB'000	2015 RMB'000 (Restated)
Fees	750	750
Salaries, bonuses and allowances received from the Group	6,451	6,906
Pension scheme contributed by the Group	125	139
Other social benefit schemes contributed by the Group	147	161
	7,473	7,956

Further details of directors' and supervisors' emoluments are included in Note 55 to the Consolidated Financial Statements.

53. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

Financial assets

	2016					
	Financial assets at fair value through profit or loss RMB'000	Derivative financial instruments designated as hedging instruments RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Loans receivable	-	-	-	6,667,625	-	6,667,625
Lease receivables	-	-	-	11,410,897	-	11,410,897
Equity investments	33,675	-	-	-	864,324	897,999
Debt investments	40,921	-	-	-	370,791	411,712
Investment products	-	-	-	-	1,269,681	1,269,681
Reverse repurchase agreements	-	-	-	6,314,740	-	6,314,740
Trade receivables	-	-	-	27,138,909	-	27,138,909
Discounted bills receivable	-	-	-	189,052	-	189,052
Bills receivable	-	-	-	6,653,165	-	6,653,165
Financial assets included in prepayments, deposits and other receivables	-	-	-	1,901,241	-	1,901,241
Investment funds	116,402	-	-	-	1,914,702	2,031,104
Derivative financial instruments	298	707,060	-	-	-	707,358
Due from the Central Bank	-	-	-	3,197,369	-	3,197,369
Restricted deposits	-	-	-	749,901	-	749,901
Cash and bank	-	-	-	39,470,906	-	39,470,906
	191,296	707,060	-	103,693,805	4,419,498	109,011,659

53. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	2016			
	Financial liabilities at fair value through profit or loss RMB'000	Derivative financial instruments designated as hedging instruments RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	-	-	30,699,455	30,699,455
Bills payable	-	-	5,913,034	5,913,034
Financial liabilities included in other payables and accruals	-	-	7,333,187	7,333,187
Customer deposits	-	-	2,921,509	2,921,509
Interest-bearing bank and other borrowings	-	3,406,717	-	3,406,717
Financial liabilities included in other non-current liabilities	-	-	1,285,263	1,285,263
Bonds	-	-	11,148,377	11,148,377
Derivative financial instruments	-	26,788	-	26,788
	-	3,433,505	59,300,825	62,734,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

53. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets

	2015					
	Financial assets at fair value through profit or loss RMB'000	Derivative financial instruments designated as hedging instruments RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Loans receivable	-	-	-	6,660,857	-	6,660,857
Lease receivables	-	-	-	8,588,395	-	8,588,395
Equity investments	53,152	-	-	-	1,160,193	1,213,345
Debt investments	3,510	-	-	-	434,319	437,829
Investment products	-	-	-	-	1,226,368	1,226,368
Reverse repurchase agreements	-	-	-	4,591,840	-	4,591,840
Trade receivables	-	-	-	26,021,351	-	26,021,351
Discounted bills receivable	-	-	-	365,953	-	365,953
Bills receivable	-	-	-	6,726,313	-	6,726,313
Financial assets included in prepayments, deposits and other receivables	-	-	-	1,328,887	-	1,328,887
Investment funds	32,867	-	-	-	1,817,150	1,850,017
Derivative financial instruments	4,592	660,213	-	-	-	664,805
Due from the Central Bank	-	-	-	3,063,635	-	3,063,635
Restricted deposits	-	-	-	632,092	-	632,092
Cash and bank	-	-	-	36,969,895	-	36,969,895
	94,121	660,213	-	94,949,218	4,638,030	100,341,582

53. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	2015(Restated)			
	Financial liabilities at fair value through profit or loss	Derivative financial instruments designated as hedging instruments	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	-	-	28,607,972	28,607,972
Bills payable	-	-	3,439,412	3,439,412
Financial liabilities included in other payables and accruals	-	-	10,882,677	10,882,677
Customer deposits	-	-	5,704,331	5,704,331
Interest-bearing bank and other borrowings	-	2,070,697	-	2,070,697
Financial liabilities included in other non-current liabilities	-	-	563,925	563,925
Bonds	-	-	10,832,835	10,832,835
Derivative financial instruments	-	25,507	-	25,507
	-	2,096,204	60,031,152	62,127,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2016 RMB'000	**2015 RMB'000**
Assets		
Non-current assets		
Property, plant and equipment	1,409,637	1,041,294
Investment properties	39,880	42,288
Prepaid land lease payments	2,781,458	211,637
Intangible assets	114,283	162,855
Investments in subsidiaries	24,648,090	19,378,508
Investments in associates	2,059,161	1,832,726
Other investments	746,616	695,131
Deferred tax assets	1,045,538	1,229,467
Other non-current assets	289	-
Total non-current assets	32,844,952	24,593,906
Current assets		
Inventories	77,426	55,343
Construction contracts	1,311,237	448,622
Trade receivables	14,427,261	15,146,579
Loans receivable	579,000	1,138,000
Bills receivable	522,380	1,088,056
Prepayments, deposits and other receivables	18,053,467	15,816,475
Investments	150,000	150,000
Cash and bank	25,962,099	23,010,275
Total current assets	61,082,870	56,853,350
Total assets	93,927,822	81,447,256

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (continued)

	Note	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Equity and liabilities			
Liabilities			
Non-current liabilities			
Bonds		6,773,575	6,547,280
Other non-current liabilities		61,743	50,062
Total non-current liabilities		6,835,318	6,597,342
Current liabilities			
Trade payables		25,133,432	25,295,499
Bills payable		1,457,587	1,058,559
Other payables and accruals		22,975,555	18,515,104
Derivative financial instruments		-	24,428
Interest-bearing bank and other borrowings		1,510,000	490,000
Tax payable		-	396,365
Provisions		434,586	660,134
Total current liabilities		51,511,160	46,440,089
Total liabilities		58,346,478	53,037,431
Equity			
Equity attributable to owners of the Company			
Share capital		13,431,156	12,824,305
Reserves	(a)	22,150,188	15,585,520
Retain earnings	(a)	-	-
Total equity		35,581,344	28,409,825
Total equity and liabilities		93,927,822	81,447,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

	Capital surplus RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	3,783,962	1,813,570	8,890,719	14,488,251
Total comprehensive income for the year	(40,411)	-	(85,049)	(125,460)
Equity in convertible bonds	1,214,919	-	-	1,214,919
Others	7,810	-	-	7,810
Appropriation of statutory surplus reserves	-	1,022	(1,022)	-
Proposed 2015 final dividend	-	-	-	-
As at 31 December 2015 and 1 January 2016	4,966,280	1,814,592	8,804,648	15,585,520
Total comprehensive income for the year	(87,996)	-	2,066,091	1,978,095
Equity in convertible bonds	72	-	-	72
Acquisition of assets through private offering	2,478,317	-	-	2,478,317
Business combination involving enterprises under common control	2,108,184	-	-	2,108,184
Others	-	-	-	-
Appropriation of statutory surplus reserves	-	190,620	(190,620)	-
Proposed 2016 final dividend	-	-	-	-
As at 31 December 2016	9,464,857	2,005,212	10,680,119	22,150,188

As at 31 December 2016, balance of capital surplus included the Company's share premium of RMB8,200,668,000(in 2015: RMB3,614,095,000)(Note 44).

55. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2016 RMB'000	2015 RMB'000
Directors		
Fees	750	750
Other emoluments:		
Salaries, bonuses and allowances received from the Group	1,465	2,236
Pension scheme contributed by the Group	34	46
Other social benefit schemes contributed by the Group	39	54
	2,288	3,086
Chief executive		
Fees	-	-
Other emoluments:		
Salaries, bonuses and allowances received from the Group	193	341
Pension scheme contributed by the Group	8	15
Other social benefit schemes contributed by the Group	9	18
	210	374
	2,498	3,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

55. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Dr. Lui Sun Wing	250	250
Mr. Jian Xunming	250	250
Mr. Chu Junhao	250	250
	750	750

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) Executive directors, non-executive directors and supervisors

Save as disclosed below, none of the executive directors, non-executive directors and supervisors of the Company received any remuneration for the year that is required to be disclosed in the financial statements pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance.

	2016				
	Fees	Salaries, bonuses and allowances received from the Group	Pension scheme contributed by the Group	Other social benefit scheme contributed by the Group	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zheng Jianhua	-	771	17	20	808
Mr. Huang Ou	-	694	17	20	731
	-	1,465	34	40	1,539
Supervisor					
Mr. Xie Tonglun	-	193	8	9	210
	-	1,658	42	49	1,749

55. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

(b) Executive directors, non-executive directors and supervisors(continued)

	2015				
	Fees	Salaries, bonuses and allowances received from the Group	Pension scheme contributed by the Group	Other social benefit scheme contributed by the Group	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Zheng Jianhua	-	771	15	18	804
Mr. Huang Ou	-	694	15	18	727
	-	1,465	30	36	1,531
Supervisor					
Mr. Xie Tonglun	-	341	15	18	374
	-	1,806	45	54	1,905

During the year, no director or supervisor waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.