



大众公用

DaZhong Public Utilities

股份代號：1635

Stock Code: 1635

# 2017年年度報告

2017 ANNUAL REPORT

上海大眾公用事業（集團）股份有限公司

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

## IMPORTANT NOTICE

- I. **The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company confirm that the contents in this annual report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.**
- II. **Please refer to “Performance of Duties by Directors” in the “Corporate Governance Report” for details of attendance of directors to the board meetings.**
- III. **The 2017 financial report of the Company was prepared under the International Financial Reporting Standards issued by International Accounting Standards Board, for which BDO Limited has issued an unqualified audit report. Unless specifically indicated, Renminbi is the reporting currency in this annual report.**
- IV. **Yang Guoping (楊國平), the person-in-charge of the Company and the Chairman of the Board, Zhao Ruijun (趙瑞鈞), the person-in-charge of accounting department and Hu Jun (胡軍), the head of the accounting department (person-in-charge of accounting), warrant the truthfulness, accuracy and completeness of the financial report in this annual report.**
- V. **Profit distribution plan or plan to convert surplus reserves into share capital approved by the Board during the Reporting Period**

The net profit attributable to owners of the parent company of 2017 amounted to RMB474,133,000. The parent company's profit after tax amounted to RMB379,353,000. According to the Company Law and the Articles of Association, the Company's distribution plan is as follows:

Based on the net profit of the parent company in 2017, a 10% statutory reserve in the amount of RMB37,935,000 is provided, with the addition of the undistributed profit carried over from 2016 in the amount of RMB545,030,000, less the distributed amount of RMB177,146,000 in 2017, the total distributable profits amounted to RMB709,302,000. Based on the total share capital of 2,952,434,675 shares as at March 29, 2018, a proposed cash dividend of RMB0.6 (tax inclusive) for every 10 shares or a total profit of RMB177,146,000 will be distributed. The undistributed profit of RMB532,156,000 shall be outstanding for distribution next year.

The profit distribution is expected to pay on or before July 16, 2018 and the implementation is subject to the approval at the Company's 2017 Annual General Meeting. A further announcement will be made by the Company regarding the details and time of implementation.

## VI. **Risks disclaimer of the forward-looking statements**

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

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

No

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

No

**IX. Material risk alert**

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

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

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

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# DEFINITIONS

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

“2017 Final Dividend”	the final dividend of RMB0.6 per ten shares (tax inclusive) for the year ended December 31, 2017
“AGM”	annual general meeting of the Company
“Articles of Association”	the articles of association of the Company, as amended or supplemented from time to time
“A Share(s)”	domestic share(s) of our Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“BDO”	BDO Limited
“Board”	the board of directors of the Company
“BOT”	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, construction, operation and maintenance of municipal facilities in a concession period, during which the enterprise can charge service fees to cover its costs of investment, operation and maintenance and obtain reasonable returns, while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government
“BT”	Build and Transfer, a project model whereby an enterprise undertakes the financing and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
“CG Code”	Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 of the Hong Kong Listing Rules
“China” or “PRC”	the People’s Republic of China. References in this annual report to the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CNPC”	China National Petroleum Corporation* (中國石油天然氣集團有限公司)
“Company”	Shanghai Dazhong Public Utilities (Group) Co., Ltd.* (上海大眾公用事業(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC on January 1, 1992
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)

## DEFINITIONS

“Dazhong Asset Management”	Shanghai Dazhong Assets Management Co., Ltd.* (上海大眾資產管理有限公司), a limited liability company incorporated in the PRC on August 8, 2014 and a directly wholly-owned subsidiary of the Company
“Dazhong Capital”	Shanghai Dazhong Group Capital Equity Investment Co., Ltd.* (上海大眾集團資本股權投資有限公司), (formerly known as Shanghai Dazhong Equity Investment Co., Ltd.* (上海大眾股權投資有限公司)), a limited liability company incorporated in the PRC on April 22, 2010 and an indirect wholly-owned subsidiary of the Company, owned as to 99% by the Company and 1% by Shanghai Dazhong Environment Industry Co., Ltd.* (上海大眾環境產業有限公司)
“Dazhong Commerce”	Shanghai Dazhong Transportation Commerce Co., Ltd.* (上海大眾交通商務有限公司), a limited liability company incorporated in the PRC on June 25, 2008
“Dazhong Gas”	Shanghai Dazhong Gas Co., Ltd.* (上海大眾燃氣有限公司) (formerly known as South Shanghai Gas Co., Ltd.* (上海燃氣市南銷售有限公司))
“Dazhong Hong Kong”	Dazhong (Hong Kong) International Corporation Limited (大眾(香港)國際有限公司)
“Dazhong Jiading Sewage”	Shanghai Dazhong Jiading Sewage Co., Ltd.* (上海大眾嘉定污水處理有限公司)
“Dazhong Lease”	Dazhong Lease Co., Ltd.* (大眾汽車租賃有限公司)
“Dazhong Transportation”	Dazhong Transportation (Group) Co., Ltd.* (大眾交通(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC on June 6, 1994, whose A shares (Stock Code: 600611.SH) and B shares (Stock Code: 900903.SH) have been listed on the Shanghai Stock Exchange since August 7, 1992
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, refers to such subsidiaries as if they were subsidiaries of the Company at the relevant time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended or supplemented from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

# DEFINITIONS

“H Share(s)”	overseas listed foreign share(s) in the registered share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in Hong Kong dollars
“IPO”	Initial Public Offering
“Jiangsu Dazhong Water”	Jiangsu Dazhong Water Group Co., Ltd.* (江蘇大眾水務集團有限公司)
“Latest Practicable Date”	March 27, 2018, being the latest practicable date prior to printing this annual report for ascertaining certain information contained in this report
“Listing”	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Minhang Dazhong Micro-credit”	Shanghai Minhang Dazhong Micro-credit Co., Ltd.* (上海閔行大眾小額貸款股份有限公司)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“Nantong Dazhong Gas”	Nantong Dazhong Gas Co., Ltd.* (南通大眾燃氣有限公司)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Reporting Period”	the year from January 1, 2017 to December 31, 2017
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“Selling Shareholders”	Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司) and Wuxi Coach Co., Ltd.* (無錫客運有限公司)
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Dazhong Business Management”	Shanghai Dazhong Business Management Co., Ltd.* (上海大眾企業管理有限公司), a limited liability company incorporated in the PRC on March 10, 1995 and owned as to 90% by Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) and 10% by three individual shareholders who are Independent Third Parties
“Shanghai Dazhong Financial Leasing”	Shanghai Dazhong Financial Leasing Co., Ltd.* (上海大眾融資租賃有限公司)
“Shanghai Dazhong Gas”	Shanghai Dazhong Gas Ltd.* (上海大眾燃氣有限公司)

## DEFINITIONS

“Shanghai Gas Group	Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司)
“Shanghai Stock Exchange” or “SSE”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	A Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Suchuang Gas”	Suchuang Gas Corporation Limited* (蘇創燃氣股份有限公司) (Stock Code: 1430.HK), a company listed on the Main Board of the Hong Kong Stock Exchange
“Supervisor(s)”	the supervisor(s) of the Company
“TOT”	Transfer-Operate-Transfer

\* For identification purpose only.



# CORPORATE INFORMATION

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

## DIRECTORS

### Executive Directors

Mr. Yang Guoping (楊國平) (*Chairman of the Board*)  
Mr. Liang Jiawei (梁嘉瑋) (*Chief Executive Officer*)  
Ms. Yu Min (俞敏)  
Mr. Zhuang Jianhao (莊建浩)  
Mr. Yang Weibiao (楊衛標)

### Non-executive Directors

Mr. Chan Wing Kin (陳永堅)  
Mr. Li Songhua (李松華)  
Mr. Cheung Yip Sang (張葉生)

### Independent Non-executive Directors

Mr. Wang Kaiguo (王開國)  
Mr. Yao Cho Fai Andrew (姚祖輝)  
Mr. Chow Siu Lui (鄒小磊)  
Mr. Wang Hongxiang (王鴻祥)  
Mr. Liu Zhengdong (劉正東)

## SUPERVISORS

Mr. Yang Jicai (楊繼才) (*Chairman*)  
Ms. Zhao Siyuan (趙思淵)  
Ms. Zhao Fei (趙飛)

## JOINT COMPANY SECRETARIES

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

## AUTHORIZED REPRESENTATIVES

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

## AUDIT COMMITTEE

Mr. Wang Hongxiang (王鴻祥) (*Chairman*)  
Mr. Yao Cho Fai Andrew (姚祖輝)  
Mr. Chow Siu Lui (鄒小磊)

## NOMINATION COMMITTEE

Mr. Yao Cho Fai Andrew (姚祖輝) (*Chairman*)  
Mr. Yang Guoping (楊國平)  
Mr. Liu Zhengdong (劉正東)

## REMUNERATION AND APPRAISAL COMMITTEE

Mr. Wang Kaiguo (王開國) (*Chairman*)  
Mr. Yang Guoping (楊國平)  
Mr. Yao Cho Fai Andrew (姚祖輝)

## REGISTERED OFFICE

518 Shangcheng Road  
Pudong New Area  
Shanghai  
PRC

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 8204B, 82/F, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

## STOCK NAME

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

## STOCK ABBREVIATION

DZUG

## SHARE LISTING

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

## A SHARE REGISTRAR AND TRANSFER OFFICE IN THE PRC

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

## H SHARE REGISTRARS

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

## COMPANY'S WEBSITE

[www.dzug.cn](http://www.dzug.cn)

# KEY FINANCIAL INDICATORS

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

### (1) Key accounting data

Unit: RMB'000

Key accounting data	2017	2016	Change over the corresponding period last year
			(%)
Operating revenue	4,741,950	4,568,396	3.80
Net profit attributable to equity holders of listed company	474,133	547,642	(13.42)
Net cash flows from operating activities	507,041	594,708	(14.74)
	<b>End of 2017</b>	<b>End of 2016</b>	<b>Change over the end of the corresponding period last year</b>
			<b>(%)</b>
Net assets attributable to equity holders of listed company	7,184,577	7,063,045	1.72
Total assets	20,400,001	17,009,889	19.93

# KEY FINANCIAL INDICATORS

## (2) Key financial indicators

Key financial indicators	2017	2016	Change over the corresponding period last year (%)
Basic earnings per share (RMB per share)	0.16	0.22	(27.27)
Diluted earnings per share (RMB per share)	0.16	0.22	(27.27)
Weighted average return on net assets (%)	6.73	8.47	decreased by 1.74 percentage point

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

Decrease in net profit attributable to shareholders of listed company, net of non-recurring gain or loss was mainly due to continuous appreciation of RMB which led to exchange loss of RMB110 million as of the end of 2017 from the proceeds denominated in HK dollar from the issue of H shares by the end of 2016, interest expenses incurred by the increase in borrowings and bonds, and the number of divestments during the reporting period was less than that of 2016.

Increase in non-recurring gain or loss was caused by partial disposal of the financial assets available-for-sale by the Company during the reporting period.

# FIVE-YEAR FINANCIAL SUMMARY

(According to IFRS)

RMB'000	2013	2014	2015	2016	2017
<b>Revenue and profit</b>					
Revenue	3,929,849	4,212,557	4,616,595	4,568,396	<b>4,741,950</b>
Profit before tax	363,335	416,763	573,157	680,510	<b>627,344</b>
Taxation	(49,898)	(42,508)	(37,432)	(46,700)	<b>(71,841)</b>
Profit for the year	313,437	374,255	535,725	633,810	<b>555,503</b>
<b>Attributable to:</b>					
Owners of the Company	279,068	340,469	463,800	547,642	<b>474,133</b>
Non-controlling interests	34,369	33,786	71,925	86,168	<b>81,370</b>
Dividends	115,469	57,422	148,038	177,146	<b>177,146</b>
<b>Earning per share attributable to ordinary shareholders of the parent company</b>					
Basic					
Profit for the year (RMB)	0.11	0.14	0.19	0.22	<b>0.16</b>
<b>Assets and liabilities</b>					
Non-current assets	8,995,304	9,717,614	11,198,410	12,281,560	<b>13,531,200</b>
Current assets	1,441,724	2,215,145	2,982,156	4,728,329	<b>6,868,801</b>
Current liabilities	(2,856,154)	(3,585,647)	(4,008,239)	(5,292,242)	<b>(8,613,166)</b>
Net current liabilities	(1,414,430)	(1,370,502)	(1,026,083)	(563,913)	<b>(1,744,365)</b>
Total assets less current liabilities	7,580,874	8,347,112	10,172,327	11,717,647	<b>11,786,835</b>
Non-current liabilities	(2,865,842)	(3,039,644)	(3,393,141)	(3,523,225)	<b>(3,483,554)</b>
Net assets	4,715,032	5,307,468	6,779,186	8,194,422	<b>8,303,281</b>
Interests attributable to the owners of the Company	3,870,877	4,349,476	5,718,064	7,063,045	<b>7,184,577</b>
Non-controlling interests	844,155	957,992	1,061,122	1,131,377	<b>1,118,704</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

### Discussion and analysis of operation

2017 was a year of implementing and promoting the “13th Five-Year Plan” launched by the PRC and also the first year for the Company to become an A+H listed company. The Company adhered to the development strategy of “simultaneous development of public utility and financial investment” and under leadership of the Board and concerted efforts of our staff, major tasks of the year including the improvement of gas industrial chain, arranging overseas businesses, reserving quality projects, expanding financing channels and increasing investment platforms have been promoted smoothly. The Company achieved satisfactory operating results in various sectors such as urban gas supply, urban transportation, environment and infrastructure, financial services and venture capital sector. We recorded a revenue of RMB4.7 billion and net profit of RMB556 million.

In 2017, the Company carried out the following major activities:

#### 1. Optimize and strengthen our primary public utility business, strive to increase the capability of sustainable development

- (1) Dazhong Gas is the strategic focus in our public utility sector. In 2017, Dazhong Gas adhered to the principles of “ensuring safety, seeking development, striving for efficiency and facilitating the management” and overcame difficulties such as the decrease of energy demand and the increase of pressure in the ensuring steady supply, we actively carried out the reduction of cost and fostered efficiency, technological innovation, market expansion, engineering construction and informatized construction.

In 2017, Nantong Dazhong Gas adhered to the principles of “Safety, development” and urged on ascertaining various major activities like engineering construction, gas ancillary facilities and informatized construction. As the economic condition has been recovering and the efforts in promoting “replacement of coal with natural gas”, thus the demand of natural gas rose significantly. Nantong Dazhong Gas implemented multiple measures in aspects such as the increment plan, organization of gas sources for emergency use and establishment of reserve stations, so as to ensure normal gas supply in Nantong city.

Being the leading pipeline natural gas supplier and operator in Taicang, Jiangsu Province, the business coverage of Suchuang Gas has expanded to other areas outside of Kunshan, Changshu and Taicang through acquisition of Kunshan Anda Natural Gas Development Co., Ltd.\* (昆山安達天然氣發展有限公司) as well as establishment of a joint venture with Changshu Urban Investment\* (常熟市城投).

- (2) The various operating indicators of Dazhong Jiading Sewage in 2017 were normal, the company endeavored the long-term mechanism of “meeting the discharging standard” and uphold the enterprise’s social responsibility. The Class IA+ renovation work with total investments of RMB420 million has been listed as one of the key projects in Shanghai and has achieved the water discharge milestone. The construction of sludge dehydration project has been completed and commenced commissioning, resulting in the significant improvement and enhancement in the capacity and ways of sludge treatment.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (3) Jiangsu Dazhong Water further strengthened the management over meeting the lifeline discharging standard and adhered to the goals of “finding differences, shoring up weak growth areas, strengthening internal control”, so as to carry out the key objectives of strengthening internal control, carrying out team building activities and management of meeting the discharging standard. The expansion work of Jiawang Phase 2 under Jiangsu Dazhong Water and the commencement of operation of Donghai renovation work in 2017 signified that the techniques of sewage treatment have become more reasonable and our emission standards have been further enhanced.
- (4) Dazhong Transportation has been the strong backbone for the stable improvement of Dazhong’s public utility business. In 2017, on the basis of consolidating the transportation industry, Dazhong Transportation will further integrate industrial assets with financial assets and actively promote the implementation of the development strategy of the integration of real economy and the Internet.
- (5) For municipal infrastructure projects funded and constructed by the Company, Xiangyin Road tunnel operated with high efficiency and safety and recorded stable concession income. The principal and investment return of Wuyi Road, Paotong Road and North Square projects in Changzhou have been fully recovered as of the end of June 2017.
- (6) Actively expand the overseas core business: In 2017, the Company has successfully completed a series of preparation stages such as the registration of Dazhong’s Vietnam branch in Ho Chi Minh City, the connection of potential core businesses and the leasing of office premises.

Dazhong Hong Kong has been active in the expansion of overseas core businesses, it has commenced researches and due diligence works in various projects in Italy, Britain and Australia.

## 2. Strengthen our own financial industry and steadily established outbound investment

- (1) In 2017, Dazhong Financial Leasing continued to explore “quality enterprises” with more reasonable business distribution, so as to give impetus to the breakthrough of leading enterprises in key industries. A number of tasks such as the access to central bank credit reference system commenced and Dazhong Financial Leasing has been awarded the title of “Excellent Enterprise of the Finance Leasing Industry in 2017”\* (上海市融資租賃行業2017年度優秀企業). During the first half of 2017, the Company further increased the shareholdings in Dazhong Financial Leasing with a shareholding of 80%.
- (2) In 2017, Dazhong Business Card Company actively pushed ahead major tasks including payment institution rating, the development of eTongfu (e通付) APP, transformation of the shopping mall with bonus credit and expansion of merchants. The transformation development achieved preliminary results and clarified the future development directions surrounding two objectives of payment and settlement.

In 2017, Dazhong’s eTongfu APP was officially launched and the application includes payments and e-commerce shopping, the consumption scenarios of e-Card have been extended to renowned e-commerce platform such as JD, Suning and Orient CJ, while eTongfu APP provides a transaction model of offline QR-code payment.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (3) Minhang Micro-credit is always committed to adhering to the overall operation principle of “strictly controlling risks and seeking progress while maintaining stability” and insisted to intensify risk prevention efforts as well as improving the risk control system continuously, so as to ensure we have safe and effectively-circulated operating capital and a stable operating condition in overall.
- (4) We actively carried out post-investment management for the Company’s venture capital platforms and direct investment projects, and made steady progress on its financial investment projects. In 2017, the Company joined the partnership of Shanghai Huacan Equity Investment Fund Partnership (Limited Partnership) through receiving a contribution and making a monetary contribution. The outbound investment project of the Fund focused on reform of mixed ownership for the state-owned enterprises, Internet technology and other fields. Currently, investment on the Sheng Da Gaming Project was completed.

### 3. Strengthen the Group’s internal management, and continuously embody the effectiveness of intensive control

- (1) In order to further enhance the Company’s financial and capital management level, in 2017, the Company fully utilized its informatized instruments to complete the upgrade of its user-friendly NC financial system, and establish an overall budgetary management and financial control information system for the Company, which strengthened its financial control efforts on its subsidiaries. The Company completed the building of capital pool, which strengthened its capital sharing, and realized a comprehensive consolidated capital control management, thereby reducing the cost and enhancing the security of the Company’s capital management.
- (2) With the informatized construction target of “a large group, integration” of the Company, we followed the Company’s development strategies as the guidance to solidify its foundation, develop frameworks and implement the informatized construction plan. We pushed forward informatized construction which focuses on “the upgrade of major informatization infrastructure, the development of major informatization application system platform, the establishment of major informatization system, the access of big data for its key production system”, in order to lay down foundation for the rapid development of the Company in the future.
- (3) In 2017, we comprehensively implemented the systematic construction of human resource management, and performed an enormous amount of work focusing on establishing a 3-year human resource plan, putting extra efforts in recruiting talents for vacant positions, optimizing the Company’s performance appraisal system through a qualitative and quantitative way, the comprehensive deployment of phase one construction of EHR information system, and putting extra efforts in aspects like building talent teams for the Company.
- (4) We continuously strengthened and improved the budget and final accounts as well as performance assessment, and reflected the stage task and key target point of the Company’s management and control. In 2017, on the basis of stringent evaluation of our subsidiaries’ annual performance, we put emphasis on optimizing various evaluation indicator in the year of 2018, and put forward comprehensive budget implementation and establishment.

## MANAGEMENT DISCUSSION AND ANALYSIS

- (5) The Company is constantly strengthening awareness of internal management, and further improving its internal control system in strict compliance with its basic principle of “objective, independent, impartial”, thereby realizing an effective and scientifically reasonable implementation of the system. In 2017, we continuously put forward the internal audit, internal control and self-assessment of the Company and each subsidiaries.
- (6) The Company attached great emphasis on safe production management, abided by the philosophy of “Safety First, Prevention First, and Comprehensive Management”, and implemented the subject responsibility regarding safe production. Each subsidiaries strictly enforced the requirements in “Annual Safe Production Responsibility Document” in 2017. While the Company urged its subsidiaries to commence self-inspection and self-correction on safe production, it completed various works such as safe production inspection, safe production management of project construction, convening safe production meetings, etc.
- (7) The Company proactively explored new ideas, new means and new ways to establish corporate culture, allowing the integration of the establishment of corporate culture into each operational management activities. We carried out learning and education activities on “Two Studies, One Action”, and organized thematic party lectures regarding “The interpretation of the spirit of the 2017 National People’s Congress and Chinese People’s Political Consultative Congress” and “Learning the spirit of The 19th Communist Party of China National Congress”. We encouraged party organizations and party members to better serve the corporation through holding democratic meetings among party members, and set a role model for the public.

Dazhong Transportation, an associate of the Company, further streamlined integration of the industrial chain of the transportation industry under the implementation of new industrial policies. The services and products were closer in line with transportation market demand during the Internet era, promoting iteration and upgrade of the industry. Dazhong Transportation Group launched investigation of informatization strategies and plans and promoted the implementation of the “real economy + Internet” strategy to serve for the “+ Internet” transformation of the relevant industry.

The principal business in gas sector recorded a steady growth. During the year, with focus on “ensuring safety, seeking development, striving for economic benefits and facilitating the management”, Dazhong Gas efficiently facilitated the production safety, market expansion, revenue increase, cost reduction, technology management etc., with steady and controllable production and supply. The construction of major ancillary projects proceeded as schedule, along with steadily declining difference between production and sale of natural gas. The operating results enjoyed stable growth. Dazhong Gas became one of the first pilot enterprises for “cost regulation”. Nantong Dazhong Gas Co., Ltd.\* (南通大眾燃氣有限公司) brought together the development efforts to expand the gas market, and its operating results also enjoyed stable growth. Through acquisition of Kunshan Anda Natural Gas Development Co., Ltd.\* (昆山安達天然氣發展有限公司) as well as establishment of a joint venture with Changshu Urban Investment\* (常熟市城投), Suchuang Gas expanded its business coverage to other areas outside of Kunshan, Changshu and Taicang. As of now, the Company is still the second largest shareholder of Suchuang Gas.



# MANAGEMENT DISCUSSION AND ANALYSIS

Projects in environment and municipal infrastructure sector operated smoothly. Jiading sewage plant recorded stable operation throughout the current year. Phase I and II of the plant successfully completed renovation work and construction of sludge dehydration project and commenced commissioning. According to the requirements of the Ministry of Environmental Protection, the Class IA+ renovation work in respect of standard enhancement of the whole plant was actively pushed forward. Jiangsu Dazhong Water further enhanced management over meeting the lifeline discharging standard and optimized its management standard and assessment system in the first half of the year. It also actively reduced the cost, strengthened internal control, carried out team building activities and built its corporate culture. Xiangyin Road tunnel project operated with high efficiency and recorded stable concession income. The venture capital platforms and direct investment projects by way of investment and equity investment of the Company recorded good operation in the year. The Company actively implemented post-investment on the projects and explored various exiting channels to reduce investment risks on the invested projects.

## INDUSTRY REVIEW

### 1. Public Utility

#### 1. City Gas Industry

Being a quality clean energy with high efficiency, natural gas is gradually becoming one of the most effective energy for the PRC to improve environmental pollution and achieve the optimization and adjustment of the energy structure. Increasing the proportion of natural gas in consumption of primary energy has become an established principle of the PRC and the position of natural gas in the development of China's energy industry is increasingly important.

The city gas sector is the core business which the Company is focusing on. Shanghai Dazhong Gas Co., Ltd., our controlling enterprise, is a large-scale city gas operation company providing gas distribution, sales and services. As of the end of 2017, Dazhong Gas has more than 1.82 million gas users and the annual sales of natural gas in 2017 amounted to 979.28 million m<sup>3</sup>. Nantong Dazhong Gas, a subsidiary of the Company, has 427,000 gas users in Nantong City and the annual sales of natural gas in 2017 amounted to 193 million m<sup>3</sup>. Currently, the Company has around 40% and more than 80% of the market shares in the urban areas of Shanghai and Nantong respectively. The Company also enters the Songjiang District and Fengxian District in Shanghai by way of operating joint ventures and plays a vital role in the local gas market.

In overall, the monopolistic advantage of the Company's city gas business in South Shanghai and Nantong in Jiangsu Province is relatively strong. In recent years, along with the new users brought by the continuous development of cities and the completion of conversion works from pipelined gas to natural gas, the income of the Company's city gas business is hopeful to enjoy a stable growth.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. *Environment and municipal administration industry*

Recently, as the progress of urbanization and industrialization is accelerating, environmental pollution becomes increasingly serious, which is an obvious issue limiting the sustainable development of China's economy and society. The government is putting more emphasis on environmental protection and the development of environmental protection enterprises. China's water resources are facing a situation of uneven regional distribution, uneven distribution between years and severe water environment issues. Although the PRC's has rich water resources in aggregate, in terms of per capita possession, China is under moderate water deficiencies. Sewage affects our livelihoods on one hand, on the other hand, it aggravates the plight of water shortage in terms of water quality in cities. In recent years, a number of relevant policies have been launched, which shows the determination of the government in solving the issue of sewage. The "13th Five-Year Plan" has added the enhancement in building of an ecologically-civilized society as the top ten targets and clarifies the development direction of environmental protection enterprises during the "13th Five-Year" period. During the "13th Five-Year" period, the total investments of China's environmental protection market are expected to reach RMB17 trillion, adding strong development momentum to the environmental protection industry.

The current total processing capacity of the Company's wastewater treatment operations is 350,000 m<sup>3</sup>/day, the service area is approximately 258 km<sup>2</sup> and around 1.62 million of people are served. Our services mainly focus on regions such as Jiading, Xuzhou and Lianyungang. Our fellow Xiaoshan Qiantang Sewage Co., Ltd. specializes in the treatment of concentrated industrial wastewater and has been awarded multiple awards thanks to its complicated processes and facilities. Jiading Sewage has been awarded the title of National Exemplary Urban Wastewater Treatment Plant Award (全國城鎮污水處理廠優秀運營單位) issued by China Urban Water Supply and Disposal Committee. Xuzhou District is the strategic location in the government's plan to divert water source in Southern China to supply Northern China and our wastewater treatment plants in Xuzhou Area have won multiple awards, including the exemplary Urban Wastewater Treatment Plant in Jiangsu (江蘇省優秀城市污水處理廠).

Sewage treatment is a natural expansion of public utility business and also meets our principle of serving the public while making profits. The Company possesses extensive experience in the management and operation of sewage treatment as well as a more well-established sewage treatment technology. The Company will strive to seize the opportunities brought by policies and maintain stable development of our sewage treatment business with more than 10 years of operational experience.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. *Urban Transportation Industry*

Dazhong Transportation, which is a subordinate company of the Company, is one of the first batches of taxi companies established in Shanghai. The brand “Dazhong Taxi” is a renowned brand in Shanghai City and accounts for the second largest market share in Shanghai with a high proportion in market shares. Dazhong Transportation has several taxi companies in forms of joint ventures or associates in cities such as Harbin and Hangzhou, enjoys the leading market share in these areas. Moreover, Dazhong Transportation is the only professional car rental company covering high, medium and low grade options, with more than 3,300 cars available for renting. Leveraging on the brand awareness of “Dazhong” and excellent service quality, it positions itself in middle-to-high end car rental market and achieves top rankings in Shanghai’s car rental market in terms of operation scale and performance. Currently, the Company has established subsidiaries in around 10 capital cities such as Beijing, Guangzhou and Chengdu with increasingly intensified nationwide chain network, thereby facilitating a steady growth in car rental business scale and enhancing scale edges in chain rental of the Company.

During the recent years, Shanghai has maintained relative fast economic growth with its gross economic scale and comprehensive competitive powers occupying the leading position in China. It was approved to establish pilot free trade zone and implement national financial reform and the open and innovative strategy of “Pioneer and Pilot” (「先行先試」). According to the strategic position defined by the central government on Shanghai as an “international economic, financial, trading, shipping and technological innovative center”, the gross economic scale and financial strengths of Shanghai will be further reinforced and enhanced, which may in turn create a better environment for the development and innovation of the enterprises.

## 4. *Infrastructure investment, construction and operation industry*

The economic development of the PRC has entered the new norm and the growth pace of infrastructure investment has slowed down accordingly. As the concentration of industry is relatively lower, along with the enhancement of the standards of urbanized construction and the increase in the level of market openness, market competitions will be further intensified. Promoting the PPP model becomes an important pattern to make steady progress and focus on structural reform, drive stable growth, promote reforms, adjust economic structure, improve people’s livelihood and avoid risks. In recent years, the PRC has implemented relevant policies to regulate the operation and market development of PPP projects and curb the increase in hidden debt risk. Under strong regulatory background, PPP projects in progress will slow down and the growth pace of the overall scale will decelerate, which will be beneficial for the PPP market to develop healthily and sustainably. It is expected that the proportion of traditional municipal works in Yangtze River Delta area in the future will gradually decrease while the proportion of integrated urbanization development, cultivation of feature towns, hydraulic works, establishment of intelligent cities and environmental protection industry will increase. PPP will remain as the main pattern of infrastructure investments and construction using social capital in the coming years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 5. *Financial investment businesses*

The PRC introduced the financial leasing business in the 1980s, which was a new financial industry combining both capital and commodity financing as well as trading and technology. Since its characteristic of combining both capital and commodity financing, the requirements for the credit of enterprises and guarantees are not high, thus suitable for the small-and-medium enterprises to finance. Currently, the domestic economy is under transformation, China's financial leasing industry plays an important role in promoting the innovation and upgrade of enterprises, expanding the financing channels of small-and-medium enterprises, leading the development of emerging industries and promoting the adjustment of economic structures. This industry has become an effective way to promote the transformation and upgrade of economy under the new norm and its strategic position in the development of economy has gradually come into view. Since Dazhong Financial Leasing commenced its formal operation in 2015, it strives for segment focus and endeavors to expand its business. As a result, it takes the leading position in the industry in aspects like "photovoltaic power stations and cold-chain logistics".

Recently, the Company seized the historical opportunity from the flourish development of the capital market and expanded the venture capital business actively. Leveraging on the ideal social resources, outstanding advantages from Shareholder's resources, strong capability in intermediate coordination, extensive investment and exit experience of projects as well as professional investment teams, the Company deeply involves in the venture capital business. Currently, the Company has four venture capital platforms, among which, Shenzhen Capital Group Co., Ltd., a company which the Company has made equity investments, is a domestic venture company with the largest capital scale, strongest investment capability and the most competitive.

## FINANCIAL REVIEW

### Major operation during the Reporting Period

In 2017, the Company recorded a total revenue of RMB4,742 million, representing an increase of 3.81% as compared to RMB4,568 million for the corresponding period of last year. The consolidated profit before tax, consolidated net profit and net profit attributable to the owner of the parent amounted to RMB627 million, RMB556 million and RMB474 million, respectively, representing a decrease of 7.93%, 12.30% and 13.50%, respectively, as compared to the corresponding period of last year.

### REVENUE

The Group's revenue increased by 3.81% on a year-on-year basis from RMB4,568 million for the year ended December 31, 2016 to RMB4,742 million for the year ended December 31, 2017. Revenue contribution from the four segments remained relatively stable during the Period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Piped gas supply

Revenue generated from piped gas supply operations increased by 3.39% from RMB4,244 million for the year ended December 31, 2016 to RMB4,388 million for the year ended December 31, 2017. Such increase was mainly due to the growth of business volume of piped gas supply operations. Revenue generated from piped gas supply operations was 92.91% and 92.53% of the Group's total revenue for the year ended December 31, 2016 and 2017, respectively.

## Wastewater treatment

Revenue generated from wastewater treatment operations increased by 16.29% from RMB178 million for the year ended December 31, 2016 to RMB207 million for the year ended December 31, 2017. Such increase was mainly due to the increase in business volume and price of wastewater treatment operators. Revenue generated from wastewater treatment operations was 3.90% and 4.37% of the Group's total revenue for the year ended December 31, 2016 and 2017, respectively.

## Public infrastructure projects

Revenue generated from public infrastructure projects decreased by 10.91% from RMB55 million for the year ended December 31, 2016 to RMB49 million for the year ended December 31, 2017, which was mainly due to the contract enforcement of part of the public infrastructure projects expired. Revenue generated from public infrastructure projects was 1.20% and 1.03% of the Group's total revenue for the year ended December 31, 2016 and December 31, 2017, respectively.

## Financial services

Revenue from interest income in our micro-credit business decreased by 8.70% from RMB23 million for the year ended December 31, 2016 to RMB21 million for the year ended December 31, 2017, which was mainly due to the contract enforcement of part of the micro-credit business expired.

Revenue from financial leasing business increased by 13.24% from RMB68 million for the year ended December 31, 2016 to RMB77 million for the year ended December 31, 2017, which was mainly due to the addition of projects of financial leasing business.

## GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit increased by 6.49% from RMB740 million for the year ended December 31, 2016 to RMB788 million for the year ended December 31, 2017. Gross profit of piped gas supply operations increased by 5.48% from RMB511 million for the year ended December 31, 2016 to RMB539 million for the year ended December 31, 2017. Gross profit margin for piped gas supply increased from 12.04% for the year ended December 31, 2016 to 12.28% for the year ended December 31, 2017. The increases in gross profit of piped gas supply operations during the Reporting Period were primarily due to the increase in consumption of end users.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by 11.31% from RMB168 million for the year ended December 31, 2016 to RMB187 million for the year ended December 31, 2017. The increase was primarily due to the increase in salaries and wages.

## ADMINISTRATIVE EXPENSES

Administrative expenses increased by 41.91% from RMB377 million for the year ended December 31, 2016 to RMB535 million for the year ended December 31, 2017. The increase was primarily due to exchange loss arising on the depreciation in Hong Kong Dollars.

## NET INVESTMENT INCOME AND GAINS

Net investment income and gains increased by 231.53% from RMB111 million for the year ended December 31, 2016 to RMB368 million for the year ended December 31, 2017. The increase was primarily attributable to the gain on disposal of certain financial assets.

## SHARE OF RESULTS OF ASSOCIATES

Share of results of associates decreased by 16.73% from RMB502 million for the year ended December 31, 2016 to RMB418 million for the year ended December 31, 2017, primarily due to the decrease in the results of certain associates.

## PROFIT BEFORE TAX

As a result of above, profit before tax decreased by 7.93% from RMB681 million for the year ended December 31, 2016 to RMB627 million for the year ended December 31, 2017.

## NET PROFIT

As a result of above, net profit decreased by 12.30% from RMB634 million for the year ended December 31, 2016 to RMB556 million for the year ended December 31, 2017.

## TOTAL COMPREHENSIVE INCOME

As a result of above, our total comprehensive income decreased by 12.12% from RMB297 million for the year ended December 31, 2016 to RMB261 million for the year ended December 31, 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

### Overview

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

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

Unit: RMB'000

Item	2017	2016	Change	Change (%)	Reason
Intangible assets	584,887	361,496	223,391	61.80	Mainly from the completion of engineering works in concession rights (i.e. Jiangsu Dazhong Water and Jiading Sewage)
Lease receivables	729,022	615,247	113,775	18.49	Increase in issuance of lease payments
Prepayments and other receivables	95,691	77,227	18,464	23.91	Increase in prepayments of gas engineering works
Financial assets at fair value through profit or loss	21,178	74,103	(52,925)	(71.42)	Certain financial assets is disposed
Available-for-sale financial assets	175,000	160,000	15,000	9.38	–
Pledged deposits	219,473	159,000	60,473	38.03	Increase in bank loans
Cash and cash equivalents	4,912,508	3,258,733	1,653,775	50.75	Increase in proceeds raised by IPO
Other payables	1,179,745	1,272,939	(93,194)	(7.32)	–
Investment income and gains, net	368,033	111,126	256,907	231.19	Increase in gain on disposal of certain finance assets
Share of results of associates	418,045	501,613	(83,568)	(16.66)	Decrease in results of associates

# MANAGEMENT DISCUSSION AND ANALYSIS

Item	2017	2016	Change	Change (%)	Reason
Share of other comprehensive income of associates	(108,315)	(273,009)	164,694	60.33	Decrease in fair value of investment of associates
Change in fair value of available-for-sale financial assets	(2,091)	(62,941)	60,850	96.68	Decrease in fair value of Company's investment
Exchange differences on translating foreign operations	(1,543)	(728)	(815)	111.95	Due to depreciation of Hong Kong dollars
Net cash flows generated from operating activities	507,041	594,708	(87,667)	(14.74)	Due to decrease in returns from businesses
Net cash flows used in investing activities	(1,458,645)	(619,827)	(865,818)	(139.69)	Mainly due to the contribution to Huacan Fund and increase in capital expenditure
Net cash flows generated from financing activities	2,745,799	1,716,112	1,029,687	60.00	Increase in bank loans

## Bank Borrowings

As of December 31, 2017, the Group had total bank borrowings of approximately RMB3,836 million, which increased by 65.13% from RMB2,323 million as of December 31, 2016, mainly due to the increase in engineer works of subsidiaries and the increase in loans from financial leasing business.

The Group's long-term interest-bearing borrowings and short-term interest-bearing borrowings as of December 31, 2017 were RMB828 million and RMB3,008 million, respectively. The following table sets forth the maturity profile of the loans repayable of the Group as of December 31, 2016 and December 31, 2017:

Unit: RMB million

	December 31, 2017	December 31, 2016
Within one year	3,008	1,944.6
One to two years	828	145.1
Two to five years	–	233.1
<b>Total</b>	<b>3,836</b>	<b>2,322.8</b>



# MANAGEMENT DISCUSSION AND ANALYSIS

## Corporate Bonds and Notes

For details of Corporate Bonds and Notes, please refer to the section headed “Purchase, Sale or Redemption of Listed Securities of the Company” under “Report of the Directors”.

## Gearing Ratio<sup>(1)</sup>

As of December 31, 2017, the Group’s gearing ratio was 59.36%, representing an increase of 7.54 percentage point from 51.82% as of December 31, 2016.

## Pledged Assets

As of December 31, 2017, bank borrowings with an aggregate amount of RMB912 million (as of December 31, 2016: RMB552 million) were secured by the Group’s asset. For details, please refer to note 37 to the financial statements in this annual report.

## Contractual and Capital Commitments

### *Operating leases – lessee*

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

Unit: RMB ‘000

	<b>December 31, 2017</b>	December 31, 2016
Within one year	<b>4,853</b>	694
In the second to fifth year	<b>2,909</b>	2,980
After the fifth year	<b>4,199</b>	5,899
<b>Total</b>	<b>11,961</b>	9,573

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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

#### A. ANALYSIS ON CORE BUSINESSES

##### The Company's principal business, business model and major performance drivers:

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

##### 1. Public Utility:

- (1) City gas:** The scope of the Company's gas business includes gas sales and pipeline construction and our business model is to procure gas from the upstream suppliers, sells the gas to end users through our proprietary pipeline network, and also provides relevant distribution services. Our business area mainly focuses on southwestern cities in Shanghai and Nantong in Jiangsu Province. The Company is the sole supplier of piped natural gas in the South Puxi Area and Nantong, Jiangsu Province and has underground pipelines exceeding 6,500 km and 2,200 km respectively. In 2016, the Company made equity investment in Suchuang Gas Corporation Limited (Stock Code: 1430.HK) and expanded to the gas supply business in Taicang, Jiangsu Province.

Major performance drivers: City gas business is affected by the adjustment to gas price, the number of users and amount of natural gas consumed. Urbanization and clean energy strategy will further facilitate the replacement of coal with natural gas, thereby further increasing the natural gas usage, which brings more business opportunities to the industrial chain of natural gas.

## MANAGEMENT DISCUSSION AND ANALYSIS

- (2) **Wastewater treatment:** The major business scope of the Company's wastewater treatment projects includes the treatment of wastewater from daily lives and cities. The wastewater treatment companies conduct wastewater treatment business pursuant to the concession agreement entered into with local governments where the governments procure wastewater treatment services from the Company during the concession period. The Company is responsible for handling urban wastewater in areas specified by the government and discharges to specified location after meeting the discharging standard. Currently, the Company has six wastewater treatment plants with high operation efficiency in Shanghai, Xuzhou and Lianyungang in Jiangsu Province and our wastewater treatment adopts matured wastewater treatment process in China, which can satisfy the existing requirements and standards of treated water discharge. In addition, the Company has invested in a wastewater treatment company in Xiaoshan District, Hangzhou, Zhejiang Province under a BT arrangement, The amount of repurchase will be paid by the local government during the repurchase period.

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

- (3) **Urban transportation:** The transportation service business of the Company mainly includes rental business and car rental, which is mainly operated by Dazhong Transportation (Group) Co., Ltd. (stock code: 600611.SH), which is a subsidiary of the Company. Dazhong Transportation owns a total of approximately 16,000 vehicles including taxis, rental cars, logistics trucks and tourism buses, and provides comprehensive transportation and ancillary services such as taxi, car rental, service, logistics and tourism.

The taxi business of Dazhong Transportation is mainly under subcontraction in Shanghai and mainly under rental cars and trucks outside Shanghai. At the same time, in response to the effects of internet model on traditional taxi industry, leveraging on the advantage of Dazhong brand, Dazhong Transportation launched the "Dazhong Chuxing" platform to provide regular online car hailing services. The car rental business of Dazhong Transportation mainly includes long term and zero rent. Under the operation model, the Company will purchase vehicles and licenses and provide external car rental service in an integrated way.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

- (4) **Infrastructure investment and operation:** The current infrastructure investment project operated by the Company is the Xiangyin Road tunnel in Shanghai invested, constructed and operated under BOT arrangement. The Company provides operation maintenance and protection services for the project, and the Shanghai government provides ongoing special subsidy to the Company as investment payback and return.

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

## 2. Financial investment

- (1) **Financial Services:** During the reporting period, the Company wholly owned or majority owned a number of financial service companies of different types, which are mainly engaged in financial leasing, micro-credit, pre-paid cards as well as securities and banking services. Financial leasing is an important complement of traditional banking facilities and equity financing as well as an effective link between SMEs in real economy and financial industry; The micro-credit service provides micro-credits to SMEs customers to support their operation and development; The Company's pre-paid cards business covers consumption scenarios of supermarket and department stores, food and beverage, entertainment, car services, fee payment and online shopping, which provides convenience to the daily payment of residents.

Major performance drivers: The Company strengthens the ability to observe and extrapolate the industry development trend and closely follows aspects of "National Policies, Representative Enterprises, Analysis of upstream and downstream, Risk Warning and Guideline for bank loan". The Company continuously improves the financial service standards, identifies quality customers and increase the registered capital to improve its profitability.

- (2) **Venture capital business:** The venture capital business of the Company is mainly classified as investments in venture capital enterprises and direct investments. There are four major venture capital platforms invested by the Company, which are Shenzhen Capital Group Co., Ltd., Shanghai Huacan Equity Investment Fund Partnership (Limited Partnership), Shanghai Hangxin Investment Management Co., Ltd. and Shanghai Xingye Venture Capital Co., Ltd. Under the background of "Mass Entrepreneurship and Innovation", DZUG actively commenced our venture capital business. Recently, the Company's financial venture capital business has brought fabulous investment returns and has become an important source of income for the Company.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Analysis on Industry Operating Information

### 1. City Gas Industry

According to the “13th Five Year Plan for Natural Gas Development”, the natural gas consumption will increase from 193.1 billion m<sup>3</sup> in 2015 to 360 billion m<sup>3</sup> by 2020, and the production volume will climb up from 135.0 billion m<sup>3</sup> in 2015 to 207.0 billion m<sup>3</sup> by 2020. It has also expressly stated the development objectives for resource exploration in upper stream, construction of infrastructure facilities in midstream and satisfaction of demands from lower stream, acting as a guideline for the development of natural gas of China for the coming years.

During the period under the “12th Five Year Plan”, major construction projects, namely Rudong – Haimen – Chongming Island Gas Pipeline, Phase two of Shanghai natural gas pipeline trunk network system and Chongming Island Gas Pipeline, were completed and commenced delivery of gas services one after another, with completed high-pressure natural gas pipeline exceeding 750 kilometers in aggregate, which further improving the level of safe gas supply. Shidongkou gas production and energy reserve project and the Phase 2 expansion project of Puhang transit oil terminal had been completed and commenced operation, further enhancing the reserve capacity of oil and gas for emergency use.

Meanwhile, gas revolution has been promoting rapidly, under which the NDRC conducted downward adjustment on the gateway station prices twice in 2015, made an announcement to exert much stringent control on the price chargeable by pipeline enterprises in October 2016, and lowered the gas gateway station price chargeable to non-residents by RMB0.1/m<sup>3</sup> in August 2017. Such acts led to continued decline of gas consumption cost of the lower stream and therefore a sustainable rapid growth of natural gas consumption in the future is anticipated. In June 2017, the NDRC announced “Guiding Opinions on Strengthening the Supervision of Gas Distribution Price”, which pinpoints the key principle of “Letting go two aspects regarding gas generation and sales, controlling the middle stage regarding gas supply”, which means the government will let go of price for sourcing of gas and selling price, but only carry out supervision on the pipeline distribution price which has been monopolized. It also provides details regulations on permitted maximum earning yield and the way of pricing for gas supply to cities. Accelerated marketization and revolution helped rationalize the price of natural gas and further stimulate consumption growth. As the market is basically open for competition and gas pricing, by 2020, the market-oriented pricing mechanism will be improved, with scientific, standardised and transparent legal systems in terms of pricing regulation and anti-monopoly principally set up, thus driving the healthy growth of the natural gas industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. *Wastewater Treatment Industry*

Due to increasing public awareness on environmental protection and rising concern about environmental issues, the importance of, and demand for wastewater treatment in China is uplifting. The “Plan for the Construction of Urban Sewage Treatment and Recycling Facilities in the 13th Five-Year Plan Period” promulgated by NDRC and MOHURD in January 2017 explicitly stated the main focuses and objectives for wastewater treatment industry during the 13th Five-Year Plan period. The urban wastewater treatment capacity shall be increased from 217 million m<sup>3</sup>/day to 268 million m<sup>3</sup>/day and, by the end of 2020, the ratio of urban wastewater treatment shall reach 95%. The planned additional sewer system shall cover 125,900 kilometers and the scale of new wastewater treatment facilities shall be 50.22 million m<sup>3</sup>/day. The scale of renovation of urban wastewater treatment facilities shall reach 42.20 million m<sup>3</sup>/day, while the total investment to the construction of urban wastewater treatment and recycling facilities shall be approximately RMB564.4 billion. These objectives maintains sound momentum for industry growth.

During the reporting period, “Measures for the Administration of Special Funds for the Prevention and Treatment of Water Pollution” was announced jointly by the Ministry of Finance and the Ministry of Environmental Protection to regulate and strengthen administration of special funds for prevention and treatment of water pollution. It also raised up some preferential policies for project adopting PPP model and suggested fully capitalization of market mechanism and acceleration of revolution on water price. By the end of 2020, the standards for increasing the price of domestic water used by residents in excess of the quota and plan will be implemented in full, under which the standard pricing of urban wastewater treatment shall not be lower than the disposal cost of wastewater and sludge. The effective environmental protection policies demonstrates the determination of the country to attach important to environmental governance and wastewater treatment, and eventually leads to considerable increase in the relevant investment demand. In addition, the promotion of technologies, such as sludge treatment, is a key focus of the 13th Five-Year Plan, which shows an huge room for industry development and large areas for governance.

## 3. *Urban Transportation Industry*

Coping with the new requirements in respect of the development of Shanghai under “Master Plan for Shanghai City (2017—2035)”, the development of “Five Focuses”, including international economy, finance, trading, shipping and technological innovation, will be speeded up in Shanghai, enabling Shanghai to become an outstanding city world-wide and a socialism-driven, modern and international metropolis. Taxi, having a complementary effect to a mega or middle-to-large scale public transportation system in the city, will experience relatively stable growth along with the development of regional economy and city scale expansion.

## MANAGEMENT DISCUSSION AND ANALYSIS

In recent years, in face of rapid growth of mobile internet and continuous increase in the consumption power of residents, the transportation industry had been affected by non-traditional operation model and diversified ways of transportation. On July 28, 2016, the Article No. 58 “Guiding Opinions of the General Office of the State Council on Deepening Reform and Promoting the Healthy Development of the Taxi Industry” announced by the State Council and the “Interim Measures for the Administration of Online Taxi Booking Business Operations and Services” jointly promulgated by the Ministry of Transport and 7 other Ministries had formulated top-down design and scientific guidelines for the transformation, upgrade and healthy growth of the tax industry in China and included online taxi booking as an area under legal regulation. Recently, China Taxi Industry Alliance, once again after the recommendation made in 2017, requested representatives of NPC and CPPCC to consider the legal regulations of online taxi booking so as to ensure healthy industry growth. The government will effectively encourage standardised development of automobile industry, and will gradually strengthen and refine the relevant administrative measures, in order to satisfy the transportation demands of target passengers from different segment markets. Online taxi booking, a way of transportation derived from internet technology, will be included in the areas for legal regulations for orderly development.

#### 4. *Financial Service Industry*

Under the new norm of China’s economic development, an emerging financing product – financial leasing maintains rapid growth. In recent years, the market demand for financial leasing industry, a beneficial complement to corporate finance channel as well as an effective way to liquidize remnant assets, is uplifting. Based on the index of financing cost of China, currently, average corporate financing cost of China was 8%, while average financing cost of financial leasing enterprises was 10.7%, accounting for 3.95% of the social financing. In 2017, “Notice on Resolutely Curbing the Illegal Financing of the Local Governments in the Name of Government Procurement of Services” was announced by the Ministry of Finance to strictly prohibit the inclusion of financing services provided by non-financial institutes such as financial organization and financial leasing companies into the scope of government procurement of services. In February 2018, “Guidelines of Conditions for Listing of Financial Leasing Debt Right Assets Supporting Securities on the Stock Exchange” was announced by Shanghai and Shenzhen, which was not only used to standardize different requirements and conditions, but, more importantly, to provide clear directions for the future development of financial leasing industry.

## MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the establishment of free trade zones and new routes for land and maritime trading will drive the development of emerging industries including aviation, shipping, railway, medical treatment and electronic information, etc. The special feature of “asset-financing integration” of the financial leasing will, to a great extent, satisfy the demands for funds of the said industries. Meanwhile, marketization of interest rates, financial innovations and tax preferential treatments will bring about an external environment with less tension. “Master Plan for Free Trade Zone in Shanghai” (《上海自貿區總體方案》) explicitly points out the initiative to encourage enterprises to fully utilize two sources of resources, i.e. from inside and outside China, so as to realize free cross-border financing. The financial leasing companies’ subsidiaries established with the pilot zone with single aircraft or vessel that do not subject to any minimum registered capital. Financial leasing companies are permitted to conduct, either relating to sideline or mainline, commercial factoring business. The state’s less stringent regulations in respect of the establishment of financial leasing company and the implementation of tax preferential policies show the attitude and determination of China to support financial leasing industry, which have effectively enhanced the importance of the financial leasing industry in the economic development strategies of the country. The financial leasing industry is marching towards a golden era of rapid growth.

Experienced the fluctuation due to innovative transformation, prepaid card companies have gradually back to normal track of development. An initial picture of the development of prepaid card O2O has been seen as some prepaid card companies have self-developed e-commercial platform and the online top-up function is getting popular. Along with the overall development of mobile internet and mobile payment, intelligent facilities have stimulated the development and application of mobile APP with increasingly diversified functionalities. More and more companies try to use new network media and utilize data platform and their technological advantages to further understand the consuming habits of card holders and the demand of merchants, and to diversify ways of services so as to enhance customers’ loyalty and market recognition. With the Central Bank gradually directs the optimization and standardization of the structure of payment agencies, those small-to-medium sized enterprises lagging behind will be eliminated as a series of stringent regulations, such as those regarding license renewal will be announced soon. At the same time, standardization of scan code payment, electronic currency and cross-border payment can facilitate healthy industry growth.

### 5. *Venture Capital Industry*

There were signs of recovery of the venture capital industry of China in 2017, with the number of investments increased over the corresponding period of last year. The growth slowed down in the third quarter, but experienced booming development in the last quarter, resulting in a total of 10,279 investments for the whole year. Due to various factors including entrepreneurship ecosystem, fund aggregation and industrial effect, development toward the northern areas including Guangzhou, Shenzhen and Hangzhou remains the key objective of venture capital industry of China. With rapid growth of IPO, IPO listing cases totaled 576. As of November 2017, there were 90 financial investment companies gaining IPO enterprises, which was a record high in the history of venture capital/private equity. Of which, Shenzhen Venture Capital has gained 23 IPO enterprises in 2017. The fruitful return obtained by the venture capital companies was



# MANAGEMENT DISCUSSION AND ANALYSIS

attributable to favorable market policies. In this year, the regulatory authorities paid special attention to the venture capital industry. Specifically, the lock-up period for shares held by shareholders of financial investment funds was changed from three years to one year, which helped prevent speculative investment with purpose of arbitrage and encouraged long-term investment by the financial investment companies with focus on the inherent value and growth of the company. In 2017, actively coping with the strategy of “Double Creations” and the market change, the financial investment companies proactively adjusted by using diversified exit model for exploration, multinational investment and setting up professional fund for merger and acquisition. Rapid inflow of fund for “National Team” and industrial capital into the venture capital market continuously, while bringing dynamics to the entrepreneurship ecosystem, it also delivered unprecedented opportunities and challenges to the industry. The industry will focus on rebuilding its value in a rational way.

## B. ANALYSIS ON EQUITY INVESTMENTS

### Investment Analysis

#### 1. Overall Analysis of External Equity Investment

##### (1) Material Equity Investment

Name of major investee	Principal activities	Total shareholding in investee at the end of the Reporting Period (%)	Investment amount during the Reporting Period
A segregated portfolio of New China Innovation Fund (新華創新基金)	Indirect investment in a technology company in the PRC	100	USD30,000,000
Shanghai Huacan Equity Investment Fund Partnership (Limited Partnership) (上海華燦股權投資基金合夥企業 (有限合夥))	Equity investment, equity investment management, investment management, industrial investment and financial advisory	60.24	RMB500,000,000
Suchuang Gas Corporation Limited	Sales and transmission of pipeline natural gas as well as the construction and connection of pipeline natural gas	19.75	HK\$17,199,600
A segregated portfolio of Infini Capital L.P.	Investment in public utilities	100	HK\$232,560,000

# MANAGEMENT DISCUSSION AND ANALYSIS

Name of major investee	Principal activities	Total shareholding in investee at the end of the Reporting Period (%)	Investment amount during the Reporting Period
Shanghai Shi He Industrial Co., Ltd. (上海世合實業有限公司)	Real estate development, property management, investment management, property management, convention and conference services, display and exhibition services	40	RMB149,782,000
Dazhong Transportation (Group) Co., Ltd.* (大眾交通(集團)股份有限公司)	Consultation service of corporate operation and management, modern logistics, transportation, etc.	26.71	RMB106,489,000

- (1) On January 19, 2017, Dazhong (Hong Kong), a wholly-owned subsidiary of the Company entered into an agreement with New China Capital International Management Limited (新華資本國際管理有限公司) in respect of a new investment to a segregated portfolio of New China Investment Fund with investment amount of US\$30 million. Details are set out in Announcement (Lin 2017-004)).
- (2) On March 10, 2017, the Company entered into “Interest Transfer and Partnership Agreement” (《份額轉讓及入夥協議》) and “Partnership Agreement” (《合夥協議》) with Shanghai Hualin Equity Investment Management Limited (上海華麟股權投資管理中心) (“Shanghai Hualin”), Shanghai Guosheng Group Assets Co., Ltd. (上海國盛集團資產有限公司) (“Guosheng Assets”), Dongfang Guoji Group Shanghai Investment Co., Ltd. (東方國際集團上海投資有限公司) (“Dongfang Guoji”) and Shanghai Huayi Group Investment Ltd., (上海華誼集團投資有限公司) (“Huayi Investment”) in Shanghai, under which, the Company entered into partnership with Shanghai Huacan Equity Investment Fund Partnership (Limited Partnership) (上海華璨股權投資基金合夥企業(有限合夥)) (“Huacan Fund”) to become a limited partner of Huacan Fund through transfer of RMB90 million of interests to the Company and issue of RMB910 million interest to the Company, which constitutes approximately 60.24% of the total Interest. Details are set out in Announcement (Lin 2017-010)).
- (3) As of March 30, 2017, Dazhong (Hong Kong), a wholly-owned subsidiary of the Company, increased its shareholding in Suchuang Gas by 7,818,000 shares in aggregate at an average price of HK\$2.2 per share, amounting to a total of approximately HK\$17,199,600. As of March 30, 2017, the Company, through its wholly-owned subsidiary Dazhong Hong Kong, held 178,352,000 shares in aggregate in Suchuang Gas, representing 19.75% of the total issued shares of Suchuang Gas, and became the second largest shareholder of Suchuang Gas. Details are set out in Announcement (Lin 2017-019)).

# MANAGEMENT DISCUSSION AND ANALYSIS

- (4) On June 13, 2017, Dazhong Hong Kong, a wholly-owned subsidiary of the Company, made investment in an independent investment fund of Infini Capital L.P. at an investment amount of HK\$232.56 million. The key investment of the fund is public utilities. The board of directors of Dazhong (Hong Kong) were delegated by the Company to be responsible for the specific details on the investment.
- (5) On October 20, 2017, the Company and Dazhong Transportation entered into “Share Transfer Agreement in relation to Shanghai Shi He Industrial Co., Ltd. (上海世合實業有限公司)” (《關於上海世合實業有限公司之股權轉讓協議》) with 萬豪投資 and 萬達信息 in Shanghai, under which, 100% equity interests in Shanghai Shi He held by 萬豪投資 and 萬達信息 (which was held as to 80% and 20% by 萬豪投資 and 萬達信息 respectively) were transferred to the Company and Dazhong Transportation. Details are set out in Announcement (Lin 2017-050).
- (6) During the reporting period, the Company, Dazhong (Hong Kong) International Corporation Limited, a wholly-owned subsidiary of the Company and parties acting in concert increased their shareholdings in Dazhong Transportation by 22,531,780 shares in aggregate through the centralized bidding trading system of the SSE with the aggregate amounts of RMB106.4887 million.

## (2) Material Non-equity Investment

Not applicable

## (3) Financial Assets at Fair Value

	Fair value measurement using quoted prices in active markets (Level 1)	
	2017 RMB'000	2016 RMB'000
Available-for-sale listed investments	133,441	478,317
Equity and debt investments at fair value through profit or loss	21,178	74,103

# MANAGEMENT DISCUSSION AND ANALYSIS

## (I) Material Disposal of Assets and Equity

- (1) On March 10, 2017, the Company, Shanghai Hualin, Guosheng Assets, Dongfang Guoji and Huayi Investment entered into the Shares Transfer and Partnership Admission Agreement and the Partnership Agreement in Shanghai. The Company has joined the partnership of a Fund called Hua Can Fund (華璨基金) and became the new limited partner of the Hua Can Fund (華璨基金) through receiving a contribution of RMB90 million and making a monetary contribution of RMB910 million. Currently, having completed its change of business registration, the Fund raised a total of RMB830 million in the first phase and the actual capital secured amounted to RMB830 million. The Company has contributed RMB500 million, representing a 60.24% interest in the initial capitalization. For details, please refer to the announcement of the Company on March 13, 2017.
- (2) On July 14, 2017, the Company entered into the Share Transfer Agreement of Shanghai Huacan Investment Fund Partnership (Limited Partnership)\* (《上海華璨基金合夥企業(有限合夥)份額轉讓協議》) and its supplemental agreement with Shanghai Dazhong Business Management in Shanghai. The Company transferred the subscribed capital contribution share and relevant obligations of RMB300 million which came from the unfunded Hua Can Fund of RMB500 million to the Shanghai Dazhong Business Management. Details are set out in Announcement (Lin 2017-040)).
- (3) On December 8, 2017, the Company and Dazhong Jiading Sewage entered into “Contract of Property Right Transfer in Shanghai City” (《上海市產權交易合同》) with Dazhong Transportation. In Shanghai, under which, the Company transferred the equity interests in 100,000,000 shares of Minhang Dazhong Micro-credit held by it, representing 50% of its total share capital to Dazhong Transportation. The transfer price was RMB102,500,000. Details are set out in Announcement (Lin 2017-056)).

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

Company name	Registered Capital	Business Scope	Total assets RMB'000	Net assets RMB'000	Revenue RMB'000	Total comprehensive income for the year RMB'000
1. Dazhong Transportation	RMB2,364,122,864	Public transportation	15,839,305	9,759,614	2,558,616	431,120
2. Shenzhen Capital Group Limited	RMB4,202,249,520	Investment holding and provision of financial advisory and asset management services	26,223,255	13,518,445	1,006,913	1,442,006
3. Shanghai Dazhong Gas Co., Ltd.* (上海大眾燃氣有限公司)	RMB1,000,000,000	Gas Supply	4,470,852	1,295,171	3,634,647	95,871

# MANAGEMENT DISCUSSION AND ANALYSIS

## Use of Proceeds

### *H Shares*

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

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

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

As of December 31, 2017, the Company has not yet utilized the total net proceeds in accordance with the intended use of proceeds set out in the prospectus of the Company dated November 23, 2016.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## C. CORE COMPETITIVENESS

### Analysis of Core Competitiveness during the Reporting Period

#### 1. *“Dazhong” brand advantage*

“Dazhong” is a well-known trademark in Shanghai with a strong intangible asset advantage in public utility industry with wide customer base and brand recognition. “Dazhong” is a brand approved for use in 1994. Since 1999, the “Dazhong” trademark has been recognized as a Famous trademark in Shanghai for six consecutive years. “Dazhong” ‘s core brands, namely “Dazhong Taxi”, “Dazhong Gas”, “Dazhong Lease” and “Dazhong Logistics” maintain the market leading positions in terms of market share and operating results. “Dazhong” brand is a leading brand in the public utility industry and has become the highlighted advantage of core competitiveness of the enterprise, laying solid foundation for “Dazhong” to become a centuries-old enterprise.

#### 2. *The advantage of defensiveness and monopoly in the industry*

The Company engages in public utility industry which is closely related to the daily life of residents, therefore, it will not be highly affected by economic cycle. During the economic adjustment period, the capital market will usually regard public utility industry as an industry with higher defensiveness. The Company also engages in gas business, taxi business, sewage treatment and municipal construction business, as they may involve laying of pipeline network or national economy and people’s livelihood as well as operation and development of cities, it is regarded as monopolistic and irreplaceable.

#### 3. *The advantage of the management experience in public utility industry*

The Company has been engaging in public utility industry for more than 20 years, we have accumulated extensive experience in operation and management. Our management members and talents are professional and experienced, thus providing strong guarantee for the Company’s operation management and business expansion.

#### 4. *Diversified source of income*

The Company adheres the model in which public utility and venture capital businesses being two major drivers. Through enhancing the management of principal business and investing projects with sustainable growth value, thus the income sources of the Company can be diversified.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 5. *Standardized and improved corporate management*

The Company has been strictly complying the requirements of the Company Law, the Securities Law, the Code of Corporate Governance for Listed Companies (《上市公司治理準則》), and the relevant laws and regulations of CSRC and the Shanghai Stock Exchange, so as to improve corporate governance in an ongoing manner and regulate the operation of the Company. The Company has established a management mechanism of clear authorities and responsibilities, operation regulation, mutual balance and coordination which is under effective operation, forming an efficient corporate governance system which regulates with the Company's characteristics.

## 6. *Continuous financing ability*

During the reporting period, the Company actively explored multi-channel financial methods, aiming at saving the financial cost to the largest extent. Through balancing equity and debt financing as well as direct and indirect financing, the Company's strength and value can be improved while lowering the financing risk. At the same time, through the issuance of corporate bonds, short-term financial bonds, ultra-short-term financial bonds and medium notes, the Company has established a multi-channel and all-directional financing system. In addition, the Company completed its A+H Shares arrangement, which facilitates the Company to better leverage on international financing platform and expand overseas expansion strategies.

## D. EMPLOYEES AND REMUNERATION POLICIES

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

As at December 31, 2017, the Group has 2,174 employees. The Group’s employee expenses was RMB581 million for the Reporting Period.

## (II) BUSINESS OUTLOOK FOR 2018

### THE COMPANY’S DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

#### (1) Industry Landscape and Trend

##### 1 City Gas Industry

Natural gas is an environment-friendly, clean and low-carbon energy with high quality and efficiency, which is positively complementary to the development of renewable energy. Along with the continuous advancement of urbanization process, the enhancement of the PRC’s environmental protection standard, the improvement of citizens’ awareness of environmental protection and the continuous development of new energy, the types of gas used and gas supply mix are also adjusting gradually. Natural gas, being a clean energy, has become a major product of urban gas consumption and supply in the PRC. The promotion of the usage of natural gas is beneficial to the promotion of energy consumption revolution and the management of air pollution.

2017 was the target year of the PRC’s Air Pollution Prevention and Control Action Plan (《大氣污染防治行動計劃》), regions were striving to replace coal with natural gas. Pursuant to the “Priority Action Plan for Comprehensive Management of Air Pollution during Fall and Winter of 2017-2018 in Beijing-Tianjin-Hebei and Its Surrounding Regions” (《京津冀及周邊地區 2017-2018 年秋冬季大氣污染綜合治理攻堅行動方案》), as of the end of October 2017, “2+26” cities along the air transmission channel in Beijing-Tianjin-Hebei region completed the substitution of coal with electricity and more than 3 million households substituted coal with air, some of the provinces and cities completed missions ahead of scheduled progress. During the period of 13th Five Year, the development of natural gas was irresistible and the PRC accelerated the encouragement and introduction of the usage of natural gas in policy level, resulting in frequent issuance of policies regarding the development of natural gas policies. Documents such as “The 13th Five-Year Plan for Energy Development” (《能源發展十三五規劃》) clearly suggests speeding up the regulation of burning coal and the usage of clean energy as substitute, which is in line with the trend of using natural gas as the major energy in the future. In July 2017, the “Opinions on Accelerating the Utilisation of Natural Gas” published by the NDRC suggested cultivating natural gas to be one of the major energies in the PRC’s modern clean energy system. By 2020, the proportion of natural gas in the primary energy consumption structure will strive to reach approximately 10%, and the underground gas storage will have an effective working volume of 14.8 billion m<sup>3</sup>. By 2030, the proportion of natural gas in the primary energy consumption structure will strive



# MANAGEMENT DISCUSSION AND ANALYSIS

to reach approximately 15%, and the underground gas storage will have an effective working volume of more than 35.0 billion m<sup>3</sup>, which further clarifies the main areas and direction of natural gas usage of the PRC in the future. The high demand of natural gas consumption and the support from policies changing the energy structure will be a driving force of the future growth of natural gas consumption.

## 2 *Wastewater Treatment Industry*

The “13th Five Year” is the golden era of development for environmental protection industry, of which the PRC has been increasing its investment efforts in environmental protection industry. Pursuant to the 13th Five-Year Plan for Ecological Environment Protection, air, water and soil are the key sectors of pollution prevention and treatment. It is expected that the investment demands for the three sectors will reach RMB6 trillion within a short period of time, of which water pollution prevention and treatment amounts to RMB4.6 trillion. Being one of the seven strategic emerging industries which will be the focus of development of the PRC, our environmental protection industry will maintain rapid growth in the coming 15 to 20 years and it is forecasted that the compound annual growth rate for output value will be hopeful to reach 15% to 20%, leading China to become one of the largest environmental protection industrial market in the world. The Ministry of Environmental Protection issued the 13th Five-Year Plan for the Development of National Environmental Protection Standards in 2017, which refines the “ten measures for water resources” (水十條), “ten measures for atmosphere” (大氣十條) and “ten measures for soil” (土十條) as well as increasing the demand for environmental management and enhancing the requirement of monitoring technology, all with an aim of putting efforts in establishing a policy system which supports the quality standard and emission standard. The Ministry of Environmental Protection, NDRC and the Ministry of Water Resources jointly issued the Water Pollution Prevention and Control Plan for Major River Basins (2016-2020) (《重點流域水污染防治規劃(2016年-2020年)》), pursuant to which, the water quality stipulated in the “ten measures for water resources” is allocated to each river basin, the main direction of pollution prevention and control in each river basin and the emphasis of water environment protection in Beijing-Tianjin-Hebei region and Yangtze River Economic Belt is also clarified, which establishes a water pollution prevention and control plan covering nationwide major river basins for the first time. Since government departments has been putting more emphasis in environmental protection, the construction and control of water usage, water conservation and water treatment will be enhanced and the marketization process of wastewater treatment industry will be further accelerated, which brings development opportunities for the water pollution treatment industry. Furthermore, as the central and local government puts more efforts in pollution prevention and control and environmental quality requirement of residents has been enhancing, thus wastewater treatment plants are imperative to heighten the emission standards. As such, the majority of wastewater treatment plants in the PRC need to upgrade and renovate, so as to provide new development opportunities for those wastewater treatment enterprises, which results in the speeding up for the marketization process of the wastewater treatment industry and creating a massive market space for the future development of the wastewater treatment industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3 *Urban Transportation Industry*

The Company engages in taxi industry, which is an integral part of the comprehensive urban transportation system, the reform and development of taxi industry is important to the public transportation as well as the stability of the society. During the “13th Five-Year” period, Shanghai carried out various key tasks, and pointed out the total number of taxis shall be controlled based on regional economic and social development and the transportation demand of the public. The 13th Five-Year Plan for the Reform and Development of the Tourism Industry of Shanghai clearly states that Shanghai will be built as a renowned tourism city in the world with global influence within the coming five years, so as to build up a tourism industry with global competitiveness. The urban taxi industry will be under the operating model of exploring new management model, improving the corporate management and explore diverse operation models where risks are shared by both the enterprises and the drivers, thus a standardized, fair and orderly market environment can be built.

## 4 *Infrastructure Investment and Operation Industry*

In recent years, the competition in infrastructure investment market is increasingly intense. Under the backdrop of the domestic macro-economy situated in the “new norm”, the investment growth of nationwide infrastructure slows down and the demand of infrastructures invested by social capital which are located in Shanghai, the region where the Company’s infrastructure investment business operates, decreases. However, at the same time, the renewal of domestic cities, the new round of urbanization construction and establishment of city clusters will become crucial factors of promoting PRC’s infrastructure development. Also, the promotion of PRC on PPP model brings huge market opportunities to enterprises in the industry.

## 5 *Financial Service Industry*

Currently, domestic economy is under transformation, the financial leasing industry in the PRC is instrumental in aspects ranging from encouraging innovation and upgrade of industries, expanding the financing channels of small, micro and medium enterprises, leading the developments of emerging industries and promoting the adjustment of economic structure. This industry has become an effective way to promote the transformation and upgrade of economy under the new normal pattern and its strategic position in economic development is gradually emerging. The introduction of policies like “13th Five-Year Plan”, “Supply side reform” and “One belt, one road” expresses the emergent needs for the PRC to revive the real economy, transform and upgrade industrial structure and directed more funds in the financial industry into real economy. During the reporting period, the Fifth National Financial Work Conference was convened to clarify the innovative direction of future financial products and services is targeting at the direction which is beneficial to the development of real economy as well as treating serving the real economy as the beginning and foothold of the financial industry. Being a sub-industry of finance which is highly

## MANAGEMENT DISCUSSION AND ANALYSIS

connected to real economy, the function of the “cross-boundary” nature of financial leasing is increasingly obvious. A series of regulations and policies signify that the PRC is actively promoting the development of financial leasing, the regulatory policies are gradually perfecting and the preferential policies of taxation are improving, which further clarify the development paths of financial industry in a number of aspects such as the function of industry, the target business directions, the establishment of companies, ancillary policies and self-regulation of the industry. Further, it is required that, by 2020, the market scale and competitiveness level of the financial leasing market shall be in the world leading position. The PRC’s financial leasing industry will enter the peak of development under sound policy environment and return to the development track with real economy being the core.

Recently, being the foundation of economy, the position of payment systems is enhancing. The transaction through payment channels include but not limited to the retail of consumer goods, which is forecasted to reach RMB26.57 billion in 2018, and the trend of rapid growth will be maintained in terms of total number. Along with the stable growth of the scale of market transactions, the regulatory bodies have also adopted corresponding measures, so as to improve the third-party payment service systems and ensure healthy, sustainable and orderly development of payment. During the reporting period, the Fifth National Financial Work Conference suggested the “strengthening of supervision” of internet financial services. PBOC announced that starting from June 30, 2018, the internet payment services such as Alipay and TenPay, which are accepted by third-party payment companies involving bank accounts, shall be processed through the “unified payment system”. The regulation has been tightening through banning secondary liquation, the Notice on Improving the Pricing Mechanism for the Fee Charges for the Use of Bankcards and setting up “unified payment”, plus the competition among peers becomes intense, the market shares will be occupied by those powerful and sustainably developing enterprises. Additionally, value-added services based on payment and integrated with marketing, finance and management will bring wider business opportunities and drivers for profit growth, and the industrial chain of third-party payment will open up the ceiling of profits from hardware to software.

### 6 *Venture Capital Industry*

In 2017, the position of venture capital in the whole corporate development strategies is exceptionally prominent. With regards to policies, it is suggested that the continuous healthy development of venture capital should be promoted, so as to support the transformation and upgrade of economic structure. In order to facilitate the return of social capital to industries more actively, governmental bodies like State Council and China Banking Regulatory Commission have put forward a number of policies and establish various RMB100 billion-level government-oriented funds, aiming at promoting entrepreneurship and innovation and regulating equity investments. During the reporting period, the CSRC announced the Guiding Opinions of the China Securities Regulatory Commission on Conducting the Pilot Program of Corporate Bonds for Innovation and Entrepreneurship (《中國證監會關於開展創新創業公司債券試點的指導意見》) and the Ministry of Finance and State Administration of Taxation jointly announced the Notice of Taxation on the Relevant Pilot Tax Policies for Venture Capital Enterprises and Individual Angel Investors (《關於創業投資企業和天使投資

# MANAGEMENT DISCUSSION AND ANALYSIS

個人有關稅收試點政策的通知》)。The CSRC formally clarifies the standard of venture capital funds that can enjoy the pilot tax policy. The NDRC launched the Plan on Establishment of Venture Capital Guiding Fund for National Emerging Sector (《國家新興產業創業投資引導基金設立方案》) and the State Council issued the Opinions on Strengthening the Implementation of the Innovation-driven Development Strategy and Making Further Progress in Mass Entrepreneurship and Innovation (《關於強化實施創新驅動發展戰略進一步推進大眾創業萬眾創新深入發展的意見》)。Such series of beneficial policies provides investment and financial services covering the whole life-cycle for those venture capital enterprises and improve the market environment of venture capital industry.

## (2) Development Strategy of the Company

In 2018, the Company adheres to the corporate development strategy of “simultaneous development of public utility and financial investment”, so as to ensure the fulfillment of stringent regulatory requirements of Hong Kong and Shanghai as well as the requirements of corporate governance. We will accelerate the enhancement of the room for operation of our primary public utility business), emphasize on the extension and improvement of the industrial chain of the primary operation of gas, expand the layout of the Company’s overseas businesses stably and optimize the platform for external investment in an ongoing manner. Also, we will continue to tighten the intensified management and effective utilization level of the Company’s capital, put more efforts in the recruitment and nurture of the Company’s human resources and strengthen the appraisal of the staff from various functional departments of each subsidiary. Further, we will continue to increase our devotion of informatized construction, all with an aim of increasing the competitiveness and influence of the Company in the capital market.

## (3) Operation Plan

1. *Focus on development of principal business and achieve breakthrough in improving industry layout*

The Company has always been adhering to its principle of prioritising its principal business development and striving to lay down a solid foundation for its two principal businesses, namely gas and environment segments. The aim of achieving a stable and organic development of our principal businesses produces a pressing need for the quality improvement and efficiency enhancement. The development mode of our public utilities business needs a change from connotative growth to extravert expansion, further extending its footholds to upstream and downstream of the industrial chains and covering local and overseas markets, thereby establishing an industrial layout in which resources control, marketing and industrial services may provide support for each other.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. *Optimize overseas investment and adjust mindset for the investment platform*

The Company has accumulated extensive experiences in equity investment, fund investment and management, featured with its unique characteristics of overseas investment. With a substantial adjustment on the corporate accounting policies implemented by the government, we need to keep abreast of the changes and adjust and optimize our overseas investment strategies on a continuous basis. By means of integration and engagement with industrial capital and financial capital, we may facilitate the overall optimization deployment of the Group's corporate resources.

## 3. *Enhance capital intensive management and promote an organic growth in capital efficiency*

Capital is the cornerstone of a company's continuation and sustainable development. Aiming to maintain our positive cash flow, we shall strive to enhance our economic efficiency and reinforce our capital management. It is an effective measure to establish a fund pool management model for an investment-controlling company, so as to well manage the capital allocation of subsidiaries and enhance the fund utilization efficiency, thereby providing a strong underpinning for the decision making and financial strategy of the company.

## 4. *Utilise various financing instruments flexibly so as to lower the cost of corporate funding*

In 2018, the Company will apply debt financing instruments more flexibly and issue corporate bonds or ultra-short-term notes of different terms when opportunity arises, with an aim of fulfilling the Company's needs on short-term revolving funds and debt repayment. It is necessary for the Company to enhance the credit of banking facilities and increase the financial leverage ratio appropriately. The Company also needs to increase our creditworthiness so as to bargain for a better preferential interest rate. We should also endeavour to connect with banks, securities dealers and insurers, so as to optimize the cost of corporate funding to the largest extent through various innovative varieties.

## 5. *Improving internal management of the Company in order to enhance the level of management and control*

The Company will fully bring information technology-aided management into full play as well as establishing and optimizing the organic integration of internal control process and information system. Also, we will continue to improve the Company's level of informatized and centralized management and control, and facilitate the achievement of transition from improving management efficiency to strengthening management effectiveness. In 2018, it is necessary for the Company to further leverage on the important functions of informatization, such as corporate operation, intensified development and refined management, so as to strongly support the upgrade and development of the Company's operation and management.

# MANAGEMENT DISCUSSION AND ANALYSIS

6. *Establish a talent reserve system for the Company, recruiting talents based on demand.*

The Company is entering a new phase of corporate development. With the gradual expansion of business and continuous enhancement of requirements for management and control, in 2018, the Company will continue to work on the recruitment and reserve of talents three-year development plan for human resources and strengthen internal and external communication and cooperation, so as to ensure the gas business operator, expatriate personnel of overseas projects and staff for investment projects needed by the Company will be satisfied. At the same time, we will establish and improve our internal talent development system, so as to provide sufficient talents for achieving our strategic goals.

## (4) Potential Risks

1. *Risk of pricing policies*

City gas, wastewater treatment, urban transportation and infrastructure investment and operation are within public utility sector with focus on both economic benefits and social welfare. The development and profit level of these businesses are subject to certain policy risks. The governments pricing model and pricing mechanism for gas price, wastewater treatment price and city taxi transportation price may affect the profitability of the Company. The Company will leverage on advantages in various aspects, actively expand markets, increase its market shares and optimize the combination of volumes and prices, so as to maximize the Company's benefits.

2. *Cross-industry risks*

The operating business of the Company mainly comprises of city gas, environment and municipal administration, urban transportation as well as financial services and venture capital. There are significant differences between each operation models, which imposes higher requirements towards the Company's overall control and professional technical capabilities. The systematic risks existing in each business may have adverse effects towards the overall operation and operating results of the Company. The Company will endeavor to enhance its overall management level and professional technical capabilities, so as to adapt to the requirements of cross-industry development.

3. *Investment risk of financial investment business*

The Company adheres to the corporate development strategy of "simultaneous development of public utility and financial investment" and actively promotes the financial investment business. As venture capital business is inherently risky, the Company's investment in financial investment sector may be subject to certain investment risk. The Company will strengthen its platform corporate management, meanwhile enhancing the ability of its internal investment team and optimizing the systems to improve the profitability of its businesses.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 4. *Risk of overseas investment and exchange rate fluctuation*

In overseas investment environment, since there are significant differences in policies, laws, business environment and cultural environment as compared to domestic conditions, the risks objectively existed, yet hard to be identified in advance, which may lead to failure in overseas investment include political risk, cultural risk and market risk. In addition, affected by domestic and foreign economic, political situations as well as the supply and demand of currencies, the exchange rates of RMB against other currencies in the future may be different from the prevailing exchange rates, which may have the risk of affecting the Company's operating results. As of the disclosure date of this report, the Company has incorporated seven companies overseas. Facing the increasingly complicated international environment, there is certain uncertainty as to whether the Company's investments in overseas projects can achieve forecasted development targets. The Company will establish and optimize the overseas investment mechanism and build up a professional team, so as to ensure the Company can make accurate judgments regarding investment projects as well as reduce and prevent the overseas investment risk.

## 5. *Risk of environmental protection-related policies*

One of the Company's principal businesses is wastewater treatment operations. Such business is subject to stringent requirements under the PRC's laws and regulations and policies in relation to environmental protection. In recent years, the PRC has been enhancing its enforcement efforts in environmental protection policies, if the PRC's environmental protection policies change in the future which lead to the adjustment of technology standard of the Company's relevant industries; or if any environment-related incidents occurred in the Company, the production operation of the Company will be under certain pressures. The Company has put forward more stringent requirements on environmental protection business, enhance environmental protection awareness and reduce the risks brought by the changes in environmental protection policies.

## 6. *Risk of production safety*

The gas sales and construction of gas pipelines engaged by the Company is easily affected by numerous uncertainties. Recently, following the continuous enhancement of the safety standards of the operation and construction of gas pipelines, the Company is facing certain pressure in safe supply. The Company will continue to improve the dual mechanism of hierarchical control of safety risks as well as identification and elimination of hidden risks, promote the establishment of corporate safety culture and enhance the employee's safety and emergency handling abilities..

# REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Company for the year ended December 31, 2017.

## PRINCIPAL ACTIVITIES

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

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

	Year ended December 31,			
	2017		2016	
	RMB'000	%	RMB'000	%
<b>Public Utility Services</b>				
Piped gas supply	4,387,723	92.53	4,243,555	92.89
Wastewater treatment	206,909	4.36	178,133	3.90
Public infrastructure projects	49,291	1.04	55,497	1.21
	<b>4,643,923</b>		<b>4,477,185</b>	
<b>Financial Services</b>				
Micro-credit	20,698	0.44	22,869	0.50
Financial leasing	77,329	1.63	68,342	1.50
<b>Total</b>	<b>4,741,950</b>	<b>100.00</b>	<b>4,568,396</b>	<b>100.00</b>

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

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

## BUSINESS REVIEW

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



# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2017, purchases from the five largest suppliers and the largest supplier of the Group, Shanghai Gas Group, accounted for 84.6% and 68.5% (2016: 78.2% and 59.1%) of the total purchases of the Group, respectively. Save as disclosed above, none of Directors, their close associates, or any Shareholder (which to the knowledge of the Directors owns more than 5% of the issuers' share capital) has any interest in the five largest suppliers of the Group.

For the year ended December 31, 2017, overall sales from the five largest customers of the Group accounted for less than 30% of the overall sales of the Group.

## RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

### Relationship with Employees

The Group is of the view that employees are the most important assets of the Group and attaches great importance to maintaining good relationship with employees. The Group is committed to provide our staff with a stable working environment and continues to uphold the principles of impartiality, fairness and merit-based employment, and constantly improves the criteria for personnel selection and appointment. To retain talents, the Group has offered employees with competitive remuneration package, which includes basic wages, bonuses and other staff benefits. The Group also provides social insurance and other benefits to employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing and personal accident insurance pursuant to PRC labor law and relevant requirements of the national and local governments. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed the Group and the employees at a certain proportion in accordance with the relevant local requirements. The work injury insurance and maternity insurance are generally paid by the Group. The Group reviews the performance of its employees annually, the results of which are applied in his or her annual salary review and promotion appraisal. The Group also provides on-the-job training to its employees from time to time. For details, please refer to the "Environmental, Social and Governance Report" of the Company, which will be published on the Company's website as at March 30, 2018.

# REPORT OF THE DIRECTORS

## Relationship with Suppliers

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

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

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

## Relationship with Customers

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

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

## REPORT OF THE DIRECTORS

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

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

### ENVIRONMENTAL POLICY AND PERFORMANCE

The Group is subject to various PRC environmental laws and regulations, including the *Environmental Protection Law of the PRC* (《中國環境保護法》), the *Law of the PRC on Appraising Environment Impact* (《中國環境影響評價法》) and the *Law of the PRC on the Prevention and Control of Water Pollution* (《中國水污染防治法》). The Group has adopted various measures to promote environmental protection, reduce the emission of greenhouse gas, noise and hazardous waste, improve the efficiency of the use of raw materials and reduce the consumption of natural resources. For details, please refer to the “Environmental, Social and Governance Report” of the Company, which will be published on the Company’s website in due course.

### COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS OF SIGNIFICANT INFLUENCE

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

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

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2017 are set out in note 20 to the financial statements of this annual report.

# REPORT OF THE DIRECTORS

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year ended December 31, 2017 are set out in note 21 to the financial statements of this annual report.

## RESULTS AND DIVIDENDS

The Group's result and financial position for the year ended December 31, 2017 are set out in the financial statements and the accompanying notes from pages 132 to 246 of this annual report.

The Board recommends the payment of a final dividend of RMB0.60 per ten shares (including tax), amounting to RMB177 million in aggregate, from the Company's retained distributable profit for the year ended December 31, 2017. The payment of the final dividend is expected to be made on or before July 16, 2018, subject to consideration and approval of the shareholders at the AGM.

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

## TAX RELIEF

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

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

## REPORT OF THE DIRECTORS

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

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

### AGM AND CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The AGM of the Company will be held on May 17, 2018, while the notice of the AGM will be published and dispatched to Shareholders of the Company in the manner as stipulated on the Hong Kong Listing Rules on March 29, 2018.

In order to determine the Shareholders' eligibility to attend the AGM of the Company, the register of members of the Company will be closed from April 17, 2018 to May 17, 2018, both days inclusive, during which no transfer of shares will be registered. Only Shareholders of the Company whose names appear on the register of members of the Company on April 16, 2018 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's H Share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on April 16, 2018.

### SUMMARY FINANCIAL INFORMATION

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

### SHARE CAPITAL

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

# REPORT OF THE DIRECTORS

## SUBSIDIARIES

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

### 1. Public Offer of H Shares

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

### 2. Bonds

Name of bond	Abbreviation	Code	Date of Issue	Due date	Balances of bonds (RMB100 million)	Interest rate (%)	Repayment of principal and interest	Trading place
2011 Corporate Bonds of Shanghai Dazhong Public Utilities (Group) Co., Ltd.	11 Hu Dazhong	122112	January 6, 2012	January 5, 2018	16	Benchmark rate plus basic difference 2.95	The interest of this bond is calculated annually, regardless of compound interest, and paid once every six months. The principal will be returned upon maturity. The last interest will be paid together with the principal.	SSE
Tranche one of the public issuance of 2018 corporate bonds of Shanghai Dazhong Public Utilities (Group) Co., Ltd.	18 Gongyong 01	143500	March 13, 2018	March 13, 2023	5	5.58	The interest of this bond is calculated annually, regardless of compound interest, and paid once every six months. The principal will be returned upon maturity. The last interest will be paid together with the principal.	SSE

### Payment of interests of corporate bonds

Upon the approval of the "Zheng Jian Xu Ke [2011] No. 2079" from the CSRC, the Company issued 6-year corporate bonds at floating rates of RMB1.6 billion on January 6, 2012. The value date shall be January 6 and July 6 for every year within the duration of the bond. The issue date was January 6, 2012. The coupon rate for the first interest bearing period was 6.98%. The second interest bearing period of the bond was from July 6, 2012 to January 5, 2013, with a coupon rate of 6.56%. The third interest bearing period of the bond was from January 6, 2013 to July 5, 2013, with a coupon rate of 6.30%. The fourth interest bearing period of the bond was from July 6, 2013 to January 5, 2014, with a coupon rate of 6.85%. The fifth interest bearing period of the bond was from January 6, 2014 to July 5, 2014, with a coupon rate of 7.29%. The sixth interest bearing period of the bond was from July 6, 2014 to January 5, 2015, with a coupon rate of 6.59%. The seventh interest bearing period of the bond was from January 6, 2015 to July 5, 2015, with a coupon rate of 6.44%. The eighth interest bearing period of the bond was from July 6, 2015 to January 5, 2016, with a coupon rate of 6.26%. The ninth interest bearing period of the bond was from January 6, 2016 to July 5, 2016, with a coupon rate of 5.34%. The tenth interest bearing period of the bond was from July 6, 2016 to January 5, 2017, with a coupon rate of 5.28%. The eleventh interest bearing period of the bond was from January 6, 2017 to July 5, 2017, with a coupon rate of 5.36%. The twelfth interest bearing period of the bond was from July 6, 2017 to January 5, 2018, with a coupon rate of 5.71%.

## REPORT OF THE DIRECTORS

The Company has paid the interests for the twelfth interest bearing period of the 2011 corporate bonds and the principal of the current bonds on January 8, 2018 and are delisted (details please announcement Lin 2017-058). The coupon rate of current bonds was 5.71%, this interest bearing period was 184 days in total and the full interest bearing year (January 6, 2017 to January 5, 2018) was 365 days. The actual interest distributed for each 11 Hu Dazhong with face value of RMB1,000 was RMB28.785 (tax inclusive) and principal of RMB1,000 was distributed. As of the disclosure date of this report, the payment of principal and interest for current bonds was completed.

On May 25, 2015, the Company held the first meeting of the tenth session of the Board and the Proposal on the Issuance of Onshore and Offshore Debt Financing Instruments (《關於發行境內外債務融資工具的預案》) was considered and approved. On July 14, 2017, the Company has convened the 2017 First Extraordinary General Meeting and agreed the public issuance of corporate bonds not exceeding RMB1.8 billion and the plan of bond issuance was considered and approved. On October 30, 2017, the Company received the "Reply in relation to the Approval for the Public Issue of Corporate Bonds to Qualified Investors by Shanghai Dazhong Public Utilities (Group) Co., Ltd." (Zheng Jian Xu Ke [2017] No.1928) from China Securities Regulatory Commission, approving the Company to issue the corporate bonds in public to qualified investors with an aggregate face value of not more than RMB1,690 million. Relevant announcements have been published on China Securities Post, Shanghai Securities Post, Securities Times and the website of Shanghai Stock Exchange on November 7, 2017.

### Interest payment of other bonds and debt financing instruments of the Company

- (1) On September 22, 2016, the Company completed the issuance of the first tranche of the 2016 ultra-short-term financing bills of Shanghai Dazhong Public Utilities (Group) Co., Ltd.\*" (see the website of Chinamoney at <http://www.chinamoney.com.cn> or the website of Shanghai Clearing House at <http://www.shclearing.com>). Abbreviation: 16 Shanghai Dazhong SCP001. Code: 011698497. Issuance amount: RMB0.3 billion. Issuance period: 270 days. Interest-bearing method: one-off payment of principal with interests. Issue price: face value of RMB100. Nominal interest rate: 2.90%. The value date: September 23, 2016. Date of payment: June 20, 2017. As of December 31, 2017, the payment of such ultra-short term financing bills has been completed.
- (2) On February 23, 2017, the Company completed the issuance of the first tranche of ultra-short-term financing bills for the year 2017 of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (see China Currency Website at <http://www.chinamoney.com.cn> and Shanghai clearing house website at <http://www.shclearing.com>). Abbreviation: 17 Shanghai Dazhong SCP001. Code: 011764014. Issuance amount: RMB0.5 billion. Issuance period: 180 days. Interest-bearing method: one-off payment of principal with interests. Issuance price: face value of RMB100. Nominal interest rate: 4.43%. The value date: February 24, 2017. Date of payment: August 23, 2017. As of December 31, 2017, the payment of such ultra-short term financing bills has been completed.

## REPORT OF THE DIRECTORS

- (3) On August 10, 2017, the Company completed the issuance of the first tranche of the 2017 medium-term notes of Shanghai Dazhong Public Utilities (Group) Co., Ltd.\*" (see the website of Chinamoney at <http://www.chinamoney.com.cn> or the website of Shanghai Clearing House at <http://www.shclearing.com>). Abbreviation: 17 Shanghai Dazhong MTN001. Code: 101764040. Issuance amount: RMB0.6 billion. Issuance period: 3 years. Interest-bearing method: Interest under the Issue shall be calculated annually on the basis of simple interest instead of compound interest. Interest payment will be made once each year and the principal amount will repaid in a one-off payment upon maturity. The last interest payment shall be made together with the principal repayment. Issue price: face value of RMB100. Nominal interest rate: 4.88%. The value date: August 11, 2017. Date of payment: August 11, 2020.
- (4) On August 15, 2017, the Company completed the issuance of the first tranche of the 2017 ultra-short-term financing bills of Shanghai Dazhong Public Utilities (Group) Co., Ltd.\*" (see the website of Chinamoney at <http://www.chinamoney.com.cn> or the website of Shanghai Clearing House at <http://www.shclearing.com>). Abbreviation: 17 Shanghai Dazhong CP001. Code: 041764018. Issuance amount: RMB0.5 billion. Issuance period: 365 days. Interest-bearing method: one-off payment of principal with interests. Issue price: face value of RMB100. Nominal interest rate: 4.63%. The value date: August 16, 2017. Date of payment: August 16, 2018.
- (5) On August 15, 2017, the Company completed the issuance of the second tranche of the 2017 medium-term notes of Shanghai Dazhong Public Utilities (Group) Co., Ltd.\*" (see the website of Chinamoney at <http://www.chinamoney.com.cn> or the website of Shanghai Clearing House at <http://www.shclearing.com>). Abbreviation: 17 Shanghai Dazhong MTN002. Code: 101764045. Issuance amount: RMB0.5 billion. Issuance period: 3 years. Interest-bearing method: Interest under the Issue shall be calculated annually on the basis of simple interest instead of compound interest. Interest payment will be made once each year and the principal amount will repaid in a one-off payment upon maturity. The last interest payment shall be made together with the principal repayment. Issue price: face value of RMB100. Nominal interest rate: 4.85%. The value date: August 18, 2017. Date of payment: August 18, 2020.
- (6) On November 22, 2017, the Company completed the issuance of the second tranche of the 2017 ultrashort-term financing bills of Shanghai Dazhong Public Utilities (Group) Co., Ltd.\*" (see the website of Chinamoney at <http://www.chinamoney.com.cn> or the website of Shanghai Clearing House at <http://www.shclearing.com>). Abbreviation: 17 Shanghai Dazhong SCP002. Code: 011764133. Issuance amount: RMB0.5 billion. Issuance period: 270 days. Interest-bearing method: interest under the Issue shall be calculated annually on the basis of simple interest instead of compound interest. Interest payment will be made once each year and the principal amount will repaid in a one-off payment upon maturity. The last interest payment shall be made together with the principal repayment. Issue price: face value of RMB100. Nominal interest rate: 5.39%. The value date: November 24, 2017. Date of payment: August 21, 2018.

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



# REPORT OF THE DIRECTORS

## CAPITAL RESERVES, SPECIAL RESERVES AND SURPLUS RESERVES

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

## DIRECTORS AND SUPERVISORS

The Directors in office up to the Latest Practicable Date are as follows:

### Executive Directors

Mr. Yang Guoping (楊國平) (*Chairman of the Board*)

Mr. Liang Jiawei (梁嘉瑋) (*Chief Executive Officer*)

Ms. Yu Min (俞敏)

Mr. Zhuang Jianhao (莊建浩)

Mr. Yang Weibiao (楊衛標)

### Non-executive Directors

Mr. Chan Wing Kin (陳永堅)

Mr. Li Songhua (李松華)

Mr. Cheung Yip Sang (張葉生)

### Independent Non-executive Directors

Mr. Wang Kaiguo (王開國)

Mr. Yao Cho Fai Andrew (姚祖輝)

Mr. Chow Siu Lui (鄒小磊)

Mr. Wang Hongxiang (王鴻祥)

Mr. Liu Zhengdong (劉正東)

The Supervisors in office up to the Latest Practicable Date are as follows:

Mr. Yang Jicai (楊繼才) (*Chairman*)

Ms. Zhao Siyuan (趙思淵)

Ms. Zhao Fei (趙飛)

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

# REPORT OF THE DIRECTORS

## **DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

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

## **MANAGEMENT CONTRACTS**

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

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS**

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

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

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

## **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE**

No contracts, transactions or arrangements of significance were entered into during the Reporting Period between the Company or any of its subsidiaries and the controlling shareholder or any of its subsidiaries.

## **DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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

# REPORT OF THE DIRECTORS

## PERMITTED INDEMNITY PROVISIONS

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

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## PRE-EMPTIVE RIGHTS

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

## CONTINUING CONNECTED TRANSACTIONS

Below is the information required to be disclosed in compliance with Chapter 14A of the Hong Kong Listing Rules.

### 1. Master Gas Purchase Agreements I with Shanghai Gas Group

Shanghai Dazhong Gas purchased piped gas from Shanghai Gas Group in its ordinary course of business at the total consideration of RMB2,486 million.

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

# REPORT OF THE DIRECTORS

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

## 2. Sale and Leaseback of Assets

On May 25, 2017, Dazhong Jiading Sewage, an indirect wholly-owned subsidiary of the Company, and Shanghai Dazhong Financial Leasing, a non-wholly owned subsidiary of the Company, entered into a title transfer agreement I (“Title Transfer Agreement I”), pursuant to which Dazhong Jiading Sewage agreed to sell certain asset (“Asset I”) to Shanghai Dazhong Financial Leasing at a consideration of RMB150 million (equivalent to approximately HK\$168 million). On the same date, Dazhong Jiading Sewage and Shanghai Dazhong Financial Leasing entered into a leaseback contract I (“Leaseback Contract I”) (Title Transfer Agreement I together with the Leaseback Contract I, “After-Sale Leaseback I”), pursuant to which Shanghai Dazhong Financial Leasing agreed to leaseback Asset I to Dazhong Jiading Sewage during the lease period. Upon expiry of the lease period and subject to full performance of its obligations by Dazhong Jiading Sewage under the Leaseback Contract I, Shanghai Dazhong Financial Leasing shall transfer the title of Asset I back to Dazhong Jiading Sewage or any third party as designated by Dazhong Jiading Sewage at a nominal price of RMB100.

Pursuant to the Leaseback Contract I, Asset I shall be leased back to Dazhong Jiading Sewage during the lease period at the total rents of RMB163,179,287.76 (equivalent to approximately HK\$182,760,802.29), which was determined after arm’s length negotiation between the parties with reference to the prevailing market practice. The lease period is for 3 years.

Shanghai Dazhong Financial Leasing is a non-wholly owned subsidiary of the Company. It is also directly owned as to 15% by Shanghai Dazhong Business Management, the substantial Shareholder of the Company. According to Rule 14A.16 of the Hong Kong Listing Rules, Shanghai Dazhong Financial Leasing is a connected subsidiary of the Company. Therefore, the disposal of Asset I contemplated under the Title Transfer Agreement I (“Disposal I”) constitutes a connected transaction and the leasing of Asset I contemplated under the Leaseback Contract I constitutes a continuing connected transaction under Chapter 14A of the Hong Kong Listing Rules.

## REPORT OF THE DIRECTORS

Dazhong Jiading Sewage and Shanghai Dazhong Financial Leasing plan to conduct another after-sale leaseback transaction (“After-Sale Leaseback II”) with substantially the same terms and conditions as set out in the Title Transfer Agreement I and the Leaseback Contract I. Therefore according to Rule 14A.81 of the Hong Kong Listing Rules, the After-Sale Leaseback I is aggregated with the After-Sale Leaseback II.

The above continuing connected transactions have followed the policies and guidelines when determining the price and terms of the transactions conducted for the year ended December 31, 2017.

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

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

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

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

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

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

### 1. Disposal of Assets

The Disposal I mentioned in “Continuing Connected Transactions – 2. Sale and Leaseback of Assets” to this annual report constitutes a connected transaction during the Reporting Period. For further details, please refer to that paragraph.

### 2. Joint Arrangement

On July 14, 2017, the Company and Shanghai Dazhong Business Management entered into a transfer agreement (the “Transfer Agreement”), pursuant to which the Company agreed to transfer its subsequent capital contributions of RMB300 million (equivalent to approximately HK\$345.6 million) to Shanghai Dazhong Business Management at nil consideration. On the same date, the Company and Shanghai Dazhong Business Management entered into a supplemental agreement to the Transfer Agreement, pursuant to which the Company agreed to enjoy profits and bear losses incurred by the projects prior to the completion (the “Initial Projects”) in proportion to its initial paid-up contribution. Shanghai Dazhong Business Management does not have any interests in the Initial Projects. The Company and Shanghai Dazhong Business Management further agreed to enjoy profits and bear losses incurred by the projects after the completion of the Joint Arrangement (the “Completion”) in proportion to their respective paid-up contribution. Since (1) the consideration is nil, and (2) Shanghai Dazhong Business Management does not enjoy profits and bear losses incurred by the projects prior to the Completion, the transfer of subsequent capital contributions from the Company to Shanghai Dazhong Business Management is deemed to be a joint arrangement by the Company and Shanghai Dazhong Business Management for the purpose of connected transaction analysis. Shanghai Dazhong Business Management is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the entering into the Transfer Agreement constitutes a connected transaction for the Company under the Hong Kong Listing Rules.

## RELATED PARTY TRANSACTIONS

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

## EQUITY-LINKED AGREEMENT

During the Reporting Period, other than disclosed the section “Changes in ordinary share capital”, the Group has not entered into any equity-linked agreements.

# REPORT OF THE DIRECTORS

## SUBSEQUENT EVENTS

On May 25, 2015, the Company held the first meeting of the tenth session of the Board and the Proposal on the Issuance of Onshore and Offshore Debt Financing Instruments (《關於發行境內外債務融資工具的預案》) was considered and approved. On July 14, 2017, the Company has convened the 2017 First Extraordinary General Meeting and agreed the public issuance of corporate bonds not exceeding RMB1.8 billion and the plan of bond issuance was considered and approved. On October 30, 2017, the Company received the “Reply in relation to the Approval for the Public Issue of Corporate Bonds to Qualified Investors by Shanghai Dazhong Public Utilities (Group) Co., Ltd.” (Zheng Jian Xu Ke [2017] No.1928) from China Securities Regulatory Commission, approving the Company to issue the corporate bonds in public to qualified investors with an aggregate face value of not more than RMB1,690 million. On March 15, 2018, the first tranche of corporate bond for the year 2018 of RMB0.5 billion was successfully issued.

## COMPLIANCE WITH CG CODE

The Company has adopted the code provisions set out in Appendix 14 to the Hong Kong Listing Rules upon Listing. The Board is of the view that the Company has complied with all the code provisions as set out in the CG Code during the Reporting Period.

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

# REPORT OF THE DIRECTORS

## SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND EMPLOYEES

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

Specific enquiries have been made to all the Directors and the Supervisors and the Directors and the Supervisors have confirmed that they have complied with the Model Code during the Reporting Period.

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

## AUDIT COMMITTEE

The Audit Committee has reviewed with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended December 31, 2017.

## AUDITOR

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

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

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



# SIGNIFICANT EVENTS

## I. PROFIT DISTRIBUTION PLAN OR PLAN TO CONVERT SURPLUS RESERVES INTO SHARE CAPITAL

### (I) Formulation, implementation or adjustment of cash dividend policy

#### 1. *Formulation of cash dividend policy*

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

#### 2. *Implementation of cash dividend policy*

During the reporting period, the Company strictly carried out the profit distribution policy and implemented the profit distribution plan for 2016: based on the total share capital of 2,952,434,675 shares as at December 31, 2016, cash bonus of RMB0.06 (tax inclusive) were distributed for every share, amounting to a total cash bonus distribution of RMB177,146,080.50. Such profit distribution policy has been considered and passed in the 2016 AGM held on May 25, 2017 and such profit distribution has been completed on July 25, 2017. This profit distribution complied with the Articles of Association and the requirements resolved at the shareholders' general meeting, and the decision-making process was in compliance with relevant requirements. For details, please refer to the "2016 profit distribution implementation announcement" published by the Company on "China Securities Post", "Shanghai Securities Post", "Securities Times" and the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

#### 3. *Adjustment of cash dividend policy during the reporting period*

During the Reporting Period, the Company did not adjust the cash dividend policy.

## SIGNIFICANT EVENTS

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

Unit: '000 Currency: RMB

Year of distribution	Number of shares to be distributed for every ten shares (share)	Amount to be distributed for every ten shares (RMB) (tax inclusive)	Number of shares to be converted into share capital for every ten shares (share)	Amount of cash dividend (including tax)	Net profit attributable to ordinary shareholders of listed Company in the consolidated financial statement during the year of distribution	Percentage of the net profit attributable to the shareholders of the listed Company in the consolidated financial statement (%)
2017	-	0.6	-	177,146	474,133	37.36
2016	-	0.6	-	177,146	547,642	32.35
2015	-	0.6	-	148,038	463,800	31.92

### (III) Repurchase offer by cash included in cash dividend

Not applicable

### (IV) Earnings and distributable profits available for ordinary shareholders during the reporting period being positive while plan for profit distribution of ordinary shares in cash is not yet proposed, the Company shall disclose the reasons in detail and the purposes and proposed applications of undistributed profits

Not applicable

# SIGNIFICANT EVENTS

## II. PERFORMANCE OF UNDERTAKINGS

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

Nature of the undertaking	Type of the undertaking	Undertaking party	Details of the undertaking	Time and term of the undertaking	Whether there is a term for the undertaking	Whether performed timely and strictly	If not perform timely, describe the specific reasons	If not perform timely, describe plans in next steps
Undertaking made in acquisition report or report on changes in equity	Others	The Company and its parties acting in concert	In the coming 12 months, the Company and its parties acting in concert propose to increase their shareholdings in A shares or B shares of Dazhong Transportation, with an increment of not less than 5,000,000 shares but not more than 100,000,000 shares. Prices for acquisition: not more than RMB9/share for A shares; not more than USD1/share for B shares.	December 22, 2016, 12 months	Yes	Yes	No	No
Other undertaking	Others	The Company	In the coming 6 months, the Company will not decrease their shareholding in A shares or B shares of Dazhong Transportation	Within the statutory deadline	Yes	Yes	No	No

## III. THE APPOINTMENT AND DISMISSAL OF ACCOUNTANTS

Unit: '0000

	Current appointment
Name of the domestic accounting firm	BDO China Shu Lun Pan Certified Public Accountants LLP
Remuneration of the domestic accounting firm	RMB120
Term of audit of the domestic accounting firm	18 years
Name of the overseas accounting firm	BDO Limited
Remuneration of the overseas accounting firm	HK\$120
Term of audit of the overseas accounting firm	2 years

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

## SIGNIFICANT EVENTS

On May 25, 2017, the Company's 2016 shareholders' general meeting considered and approved the proposal on reappointment of domestic audit firms and internal control audit firms and the proposal on appointment of overseas audit firms for the Company in 2017. The meeting agreed to reappoint BDO China Shu Lun Pan Certified Public Accountants LLP as the domestic financial audit firm and internal control audit firm for the Company in 2017. The annual financial audit fee amounted to RMB1,200,000 and the internal control audit fee amounted to RMB400,000. The meeting also agreed to appoint BDO Limited as the overseas financial audit firm and the annual financial audit fee amounted to HK\$1,200,000.

### IV. MATERIAL LITIGATION AND ARBITRATION

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

### V. SIGNIFICANT RELATED PARTY TRANSACTIONS (UNLESS OTHERWISE SPECIFIED, AMOUNTS ARE DENOMINATED IN RMB)

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

1. *Matters that have been disclosed in temporary announcements and have no developments or changes in subsequent implementation:*

Not applicable

2. *Matters that have been disclosed in temporary announcements and have developments or changes in subsequent implementation*

- (1) To cope with the need for normal operation, Shanghai Dazhong Gas, a subsidiary of the Company acquired natural gas business from Shanghai Gas (Group), the second largest shareholder of the Company. Details are set out in an announcement (Lin 2017-13) published on the China Securities Press (《中國證券報》), Shanghai Securities Press (《上海證券報》), Securities Times (《證券時報》) and the Shanghai Stock Exchange.

During 2017, Shanghai Dazhong Gas, a subsidiary of the Company purchased natural gas of 1,098.6603 million cubic meters from Shanghai Gas (Group) at a purchase price of RMB2,657.5281 million (tax inclusive). The purchase price payable but outstanding last year was RMB758.9123 million and a total of RMB2.65 billion was paid in 2017. As of December 31, 2017, the outstanding balance was RMB745.9965 million.

## SIGNIFICANT EVENTS

- (2) Due to operation need, Shanghai Dazhong Gas, a subsidiary of the Company, leased an office premise from Shanghai Gas (Group), the second largest shareholder of the Company. Details are set out in an announcement (Lin 2017-013) published on the China Securities Press (《中國證券報》), Shanghai Securities Press (《上海證券報》), Securities Times (《證券時報》) and the Shanghai Stock Exchange. During 2017, rental fee effectively incurred was RMB4.96 million. Shanghai DaiZhong Gas Co., Ltd., the subsidiary, had paid and settled the aggregate rental fee for 2016 of RMB4.7238 million.

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

1. *Matters that have been disclosed in temporary announcements and have no developments or changes in subsequent implementation:*

#### Description of the matter

#### Inquiry index

The Company entered into the Share Transfer Agreement of Shanghai Huacan Investment Fund Partnership (Limited Partnership)\* (《上海華燦基金合夥企業(有限合夥)份額轉讓協議》) and its supplemental agreement with Shanghai Dazhong Business Management Co. Ltd. in Shanghai. The company transferred the subscribed capital contribution share and relevant obligations of RMB300 million which came from the unfunded RMB500 million to the Shanghai Dazhong Business Management.

China Securities Post, Shanghai Securities Post, Securities Times and Lin No. 2017-040 on the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

2. *Matters that have been disclosed in temporary announcements and have developments or changes in subsequent implementation*

On March 30, 2017, the Company and Dazhong Transportation (Group) Co., Ltd entered into the Shanghai Property Transaction Contract in Shanghai, pursuant to which, the Company acquired the 15% equity interest in Shanghai Dazhong Financial Leasing Co., Ltd. held by Dazhong Transportation. According to the asset valuation report with the base date of February 28, 2017 issued by Shanghai Zhonghua Assets Appraisal Company Limited (上海眾華資產評估有限公司), the acquisition consideration was RMB75,000,000 (Lin 2017-015). As of the disclosure date of this report, such equity transfer has completed the registration change.

## SIGNIFICANT EVENTS

On May 25, 2017, Shanghai Dazhong Financial Leasing, a controlling subsidiary of the Company, and Dazhong Jiading Sewage entered into the Title Transfer Agreement and After-sale Leaseback Contract in Shanghai, pursuant to which, Shanghai Dazhong Financial Leasing provided financial leasing service of an aggregate amount of RMB300 million in two tranches for the transfer of sewage treatment equipment of Dazhong Jiading Sewage (with an amount of RMB150 million for each tranche) and Dazhong Jiading leased back at the same time and bore the obligations of payment of rent and other payables (Lin 2017-027).

3. Matters that have been not disclosed in temporary announcements

Not applicable

4. *Performance with agreed target shall be disclosed during the reporting period*

Not applicable

## VI. MATERIAL CONTRACTS AND IMPLEMENTATION

### (I) Guarantee

As at December 31, 2017, the Company issued a guarantee to the bank to secured banking facilities granted to certain subsidiaries to the extent of RMB2,500,000,000. As at December 31, 2016, the aforesaid bank loans outstanding amounted to RMB1,242,257,000.

## VII. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

### Single Entrusted Wealth Management Investments

Unit: Yuan Currency: RMB

Trustee	Type of entrusted wealth management products	Amount of entrusted wealth management	Beginning date of entrusted wealth management	Termination date of entrusted wealth management	Source of funds	Investment of funds	Method to determine return	Annualized rate of return	Expected return (if any)	Real income or loss	Real recovery	Through a legal procedure or not	Whether the future entrusted loans exist
Bank of Communications	Capital preservation	50,000,000.00	2017/10/16	2018/01/15	Own fund	Wealth management products	Fixed return	4.20%	N/A	523,561.64	Redeemed	Yes	No
Everbright Bank	Capital preservation	13,000,000.00	2017/11/24	2018/02/24	Own fund	Wealth management products	Fixed return	4.45%	N/A	144,625.00	Redeemed	Yes	No
Industrial Bank	Capital preservation	50,000,000.00	2017/11/27	2018/02/26	Own fund	Wealth management products	Fixed return	4.45%	N/A	560,958.90	Redeemed	Yes	No
Taiping Pension Company Limited	Capital preservation	10,000,000.00	2017/02/21	2018/02/20	Own fund	Wealth management products	Floating return	4.00%	N/A	577,107.60	Redeemed	Yes	No
Taiping Pension Company Limited	Capital preservation	50,000,000.00	2017/09/26	2018/09/28	Own fund	Wealth management products	Floating return	5.50%	2,750,000.00	N/A	Not matured	Yes	No
Industrial Bank	Non-capital preservation	2,000,000.00	2017/12/22	2018/12/21	Own fund	Wealth management products	Floating return	6.45%	129,000.00	N/A	Not matured	Yes	No

## SIGNIFICANT EVENTS

Save as disclosed above and in the section “Related party transactions arising from the acquisition and disposal of assets or equity interests” under “(I) Material Disposal of Assets and Equity” and “Significant Events” of “Management Discussion and Analysis”, the Group did not have any other significant investments or material acquisitions or disposals for the year ended December 31, 2017.

### VIII. OTHER MATTERS OF SIGNIFICANCE

- (1) On January 9, 2017, 54,703,000 shares of over-allotment H Shares were listed on the Main Board of the Hong Kong Stock Exchange. Meanwhile, two state-owned shareholders including Shanghai Gas Group decreased the shares they held by 4,973,000 A shares. The total share capital of the Company increased to 2,952,434,675 shares, of which 2,418,791,675 shares or 81.93% were A shares and 533,643,000 shares or 18.07% were H shares.
- (2) On May 25, 2015, the Company held the first meeting of the tenth session of the Board and the Proposal on the Issuance of Onshore and Offshore Debt Financing Instruments (《關於發行境內外債務融資工具的預案》) was considered and approved. On July 14, 2017, the Company has convened the 2017 First Extraordinary General Meeting and agreed the public issuance of corporate bonds not exceeding RMB1.8 billion and the plan of bond issuance was considered and approved. On October 30, 2017, the Company received the “Reply in relation to the Approval for the Public Issue of Corporate Bonds to Qualified Investors by Shanghai Dazhong Public Utilities (Group) Co., Ltd.” (Zheng Jian Xu Ke [2017] No.1928) from China Securities Regulatory Commission, approving the Company to issue the corporate bonds in public to qualified investors with an aggregate face value of not more than RMB1,690 million. On March 15, 2018, the public issuance of the first tranche of RMB500 million corporate bonds of the Company was completed.
- (3) During the reporting period, pursuant to the decisions made by the Chairman and President’s Office, Dazhong (Hong Kong) International Corporation Limited, the fellow subsidiary of the Company, planned to invest US\$37.50 million in a public utility project in Vietnam, Of which, the first contribution of US\$5 million will be used to establish a subsidiary, Dazhong (Vietnam) International Co, Ltd\* (大眾(越南)國際有限公司) (“Dazhong Vietnam”) in Vietnam. The registered capital of Dazhong Vietnam is US\$5 million and Dazhong Hong Kong holds its 100% equity interests. Up to now, as approved by the Shanghai branch of State Administration of Foreign Exchange, the Company has completed the fund reporting. Relevant announcements have been published on China Securities Post, Shanghai Securities Post, Securities Times and the website of Shanghai Stock Exchange on February 23, 2018.

### IX. ACTIVE FULFILMENT OF SOCIAL RESPONSIBILITIES

#### (I) Social responsibility

The development vision of the Company is to be a “leasing investor and operator of urban public utilities and infrastructures” and bears in mind that the root of our enterprise is to create values. We create economic values for Shareholders and the society through putting efforts in expansion and seizing market opportunities. Please see the 2017 Social Responsibility Report published on the website of Shanghai Stock Exchange on March 30, 2018.

# CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

## CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

### I. Changes in ordinary share capital

#### (I) Table of changes in ordinary shares

##### 1. Table of changes in ordinary shares

Unit: share

	Before changes		Increase/decrease during changes (+,-)					After changes	
	Amount	Percentage (%)	New issue	Bonus issue	Shares converted from reserves	Others	Subtotal	Amount	Percentage (%)
I. Restricted shares	-	-	-	-	-	-	-	-	-
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Shares held by other domestic investors	-	-	-	-	-	-	-	-	-
Including: Shares held by domestic non-State-owned legal persons	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Including: Shares held by overseas legal persons	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
II. Non-restricted liquid shares	2,902,704,675	100	-	-	-	49,730,000	-	2,952,434,675	100
1. RMB ordinary shares	2,423,764,675	83.50	-	-	-	(4,973,000)	-	2,418,791,675	81.93
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	478,940,000	16.50	-	-	-	54,703,000	-	533,643,000	18.07
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of ordinary shares	2,902,704,675	100	-	-	-	49,730,000	-	2,952,434,675	100

##### 2. Explanation on changes in ordinary shares

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



## CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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

As of December 31, 2017, upon the issuance of H shares pursuant to the partial exercise of the over-allotment option of the Company, the total share capital of the Company increased from 2,902,704,675 shares to 2,952,434,675 shares. Capital reserve increased by RMB102,793,000. The total assets and net assets of the Company increased accordingly. Based on the 2,952,434,675 shares after this issuance of H shares pursuant to the partial exercise of the over-allotment option of the Company, earnings per share and net assets per share for 2017 amounted to RMB0.16 and RMB2.81 respectively.

### II. Issue and listing of securities

#### (I) *Issue of securities within the Reporting Period*

Unit: share

Type of shares and derivative securities	Issue date	Issue price (or rate)	Issue amount	Listing date	Amounts approved for listing	Ending date for transaction
Type of ordinary shares						
H Shares (Over-allotment)	December 28, 2016	HK\$3.60	54,703,000	January 9, 2017	54,703,000	N/A
Convertible corporate bonds, separably-traded convertible bonds, type of corporate bonds						
Corporate bonds	January 6, 2012	Beuchmark rate plus basic difference 2.95	1,600,000,000	February 23, 2012	1,600,000,000	January 5, 2018
Corporate bonds	March 13, 2018	5.58%	500,000,000	March 28, 2018	500,000,000	March 13, 2023

Explanations of the issue of securities during the Reporting Period:

#### 1. *Ordinary shares*

For details in relation to the ordinary shares of the H Share, please refer to “Explanation on changes in ordinary shares” under “Table of changes in ordinary shares” in this chapter.

#### 2. *Corporate bonds*

On January 8, 2018, upon payment of interests for the twelfth interest bearing period of the 2011 corporate bonds and the principal thereof for the current period, the relevant bonds were delisted. As of the disclosure date of this report, the settlement of principal and interest payments were all completed.

On October 30, 2017, the “Reply in relation to the Approval for the Public Issue of Corporate Bonds to Qualified Investors by Shanghai Dazhong Public Utilities (Group) Co., Ltd.” (Zheng Jian Xu Ke [2017] No.1928) was issued by China Securities Regulatory Commission, approving the Company to issue the corporate bonds in public to qualified investors with an aggregate face value of not more than RMB1,690 million. On March 15, 2018, the Company successfully completed the issuance of the first tranche of corporate bonds in public in 2018 with face value of RMB500 million.

## CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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

The structure of de facto controllers of the Company before and after the issuance of H shares pursuant to the partial exercise of the over-allotment option remain unchanged. For details of changes in structure of shareholders, please refer to “Table of changes in ordinary shares” under “Changes in ordinary share capital”. The changes in total number of share capital and structure of assets and liabilities of the Company before and after the issuance of H shares pursuant to the partial exercise of the over-allotment option, are as follows:

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

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

The joint global coordinator of the Company’s listing on the Main Board of the Stock Exchange of Hong Kong Limited partially exercised the over-allotment option of the H Shares issued by the Company on December 28, 2016, requiring the Company to issue additional shares and shareholders to sell a total of 54,703,000 of H Shares (including 49,730,000 H Shares to be allotted and issued by the Company; 4,973,000 of H shares to be sold by shareholders for fulfilling the obligations of reducing their state-owned shares). Such over-allotment Shares were listed on the Main Board of the Hong Kong Stock Exchange on January 9, 2017, and the raised proceeds amounted to RMB159.9 million.

### III. Particulars of shareholders and de facto controllers

- (I) *Total number of shareholders*

Total number of shareholders of ordinary shares as at the end of the Reporting Period	201,111
Total number of shareholders of ordinary shares as at the end of the month preceding the day when the annual report was disclosed	196,719
Total number of shareholders of preference shares with voting rights restored as at the end of the Reporting Period	0
Total number of shareholders of preference shares with voting rights restored as at the end of the month preceding the day when the annual report was disclosed	0

## CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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

Unit: Share

### Particulars of top 10 shareholders

Name of shareholder (Full name)	Increase/ decrease during the Reporting Period	Shareholding at the end of the Reporting Period	Percentage (%)	Number of shares held with selling restrictions	Pledged or moratorium		Nature of shareholders
					Status of shares	Number	
Hong Kong Securities Clearing Company Nominees Limited	54,771,000	533,387,000	18.07	0	Nil	N/A	Overseas legal person
Shanghai Dazhong Business Management	0	495,143,859	16.77	0	Pledged	440,500,000	Domestic non-state owned legal person
Shanghai Gas (Group)	(4,841,412)	153,832,735	5.21	0	Nil	N/A	State-owned legal person
Lin Zhuangxi (林莊喜)	17,447,077	27,447,077	0.93	0	Nil	N/A	Domestic natural person
Lin Zehua (林澤華)	20,217,978	20,817,978	0.71	0	Nil	N/A	Domestic natural person
Lin Xianzhan (林賢專)	8,399,105	13,189,105	0.45	0	Nil	N/A	Domestic natural person
Xu Xin (徐新)	4,930,053	12,093,895	0.41	0	Nil	N/A	Domestic natural person
Central Huijin Asset Management Co., Ltd. (中央匯金資產管理有限責任公司)	0	11,370,700	0.39	0	Nil	N/A	State-owned legal person
Cai Zhishuang (蔡志雙)	9,588,898	10,188,898	0.35	0	Nil	N/A	Domestic natural person
Ding Xiumin (丁秀敏)	1,547,200	9,147,200	0.31	0	Nil	N/A	Domestic natural person

## CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### Shareholding of the top ten shareholders not subject to selling restrictions

Name of shareholders	Number of tradable shares held without selling restrictions	Type and number of shares	
		Type	Number
Hong Kong Securities Clearing Company Nominees Limited	533,387,000	Overseas listed foreign shares	533,387,000
Shanghai Dazhong Business Management	495,143,859	Ordinary shares denominated in RMB	495,143,859
Shanghai Gas (Group)	153,832,735	Ordinary shares denominated in RMB	153,832,735
Lin Zhuangxi (林莊喜)	27,447,077	Ordinary shares denominated in RMB	27,447,077
Lin Zehua (林澤華)	20,817,978	Ordinary shares denominated in RMB	20,817,978
Lin Xianzhan (林賢專)	13,189,105	Ordinary shares denominated in RMB	13,189,105
Xu Xin (徐新)	12,093,895	Ordinary shares denominated in RMB	13,189,105
Central Huijin Asset Management Co., Ltd. (中央匯金資產管理有限責任公司)	11,370,700	Ordinary shares denominated in RMB	11,370,700
Cai Zhishuang (蔡志雙)	10,188,898	Ordinary shares denominated in RMB	10,188,898
Ding Xiumin (丁秀敏)	9,147,200	Ordinary shares denominated in RMB	9,147,200

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

The Company is not aware that any top 10 shareholders of tradable shares has a connected relationship with each other.

# CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

## IV. Particulars of single largest shareholder and de facto controller

### (I) Single largest shareholder

#### 1 Legal person

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

## CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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

As of December 31, 2017, so far as is known to the Directors, the persons or entities, other than the Directors, Supervisors or chief executive of the Company, who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who would be required, pursuant to Section 336 of the SFO, to be entered in the register required referred to therein, were as follows:

Name	Nature of interest	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage of interest in the Company	Approximate percentage of relevant class of Shares
Shanghai Dazhong Business Management	Beneficial owner	A Shares	495,143,859 (L)	16.77%	20.47%
		H Shares	38,179,000 (L)	1.29%	7.15%
Shanghai Dazhong Business Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會) <sup>(2)</sup>	Interest of controlled corporations	A Shares	495,143,859 (L)	16.77%	20.47%
		H Shares	38,179,000 (L)	1.29%	7.15%
Shanghai Gas Group	Beneficial owner	A Shares	158,674,147 (L)	5.37%	6.56%
Shenergy (Group) Company Limited* (申能(集團)有限公司) <sup>(3)</sup>	Interest of controlled corporations	A Shares	158,674,147 (L)	5.37%	6.56%
ENN Energy China Investment Limited <sup>(4)</sup>	Beneficial owner	H Shares	129,261,000 (L)	4.38%	24.22%
ENN Energy Holdings Limited <sup>(4)</sup>	Interest of controlled corporations	H Shares	129,261,000 (L)	4.38%	24.22%
Wang Yusuo (王玉鎖) <sup>(4)</sup>	Interest of controlled corporations	H Shares	129,261,000 (L)	4.38%	24.22%
Hai Tong Asset Management (HK) Limited <sup>(5)</sup>	Investment manager	H Shares	86,174,000 (L)	2.92%	16.15%
Haitong International Holdings Limited <sup>(5)</sup>	Investment manager	H Shares	86,174,000 (L)	2.92%	16.15%
Haitong International Securities Group Limited <sup>(5)</sup>	Investment manager	H Shares	86,174,000 (L)	2.92%	16.15%
Haitong Securities Co., Limited <sup>(5)</sup>	Investment manager	H Shares	86,174,000 (L)	2.92%	16.15%
New China Asset Management (Hong Kong) Limited <sup>(6)</sup>	Investment manager	H Shares	53,859,000 (L)	1.82%	10.09%
Investstar Limited <sup>(7)</sup>	Beneficial owner	H Shares	53,859,000 (L)	1.82%	10.09%

## CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name	Nature of interest	Class of Shares	Number of Shares <sup>(1)</sup>	Approximate percentage of interest in the Company	Approximate percentage of relevant class of Shares
Towngas Investment Company Limited (煤氣投資有限公司) <sup>(7)</sup>	Beneficial owner	H Shares	53,859,000 (L)	1.82%	10.09%
The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) <sup>(7)</sup>	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Faxson Investment Limited <sup>(7)</sup>	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Henderson Land Development Company Limited <sup>(7)</sup>	Beneficial owner	H Shares	53,859,000 (L)	1.82%	10.09%
Henderson Development Limited <sup>(7)</sup>	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Hopkins (Cayman) Limited <sup>(8)</sup>	Beneficiary of a trust Trustee Interest of a controlled corporation	H Shares	53,859,000 (L)	1.82%	10.09%
Riddick (Cayman) Limited <sup>(8)</sup>	Trustee Interest of a controlled corporation	H Shares	53,859,000 (L)	1.82%	10.09%
Rimmer (Cayman) Limited <sup>(8)</sup>	Interest of controlled corporations	H Shares	53,859,000 (L)	1.82%	10.09%
Lee Shau Kee (李兆基) <sup>(9)</sup>	Investment manager	H Shares	53,859,000 (L)	1.82%	10.09%
Keywise Capital Management (HK) Limited	Beneficial owner	H Shares	31,544,000 (L)	1.07%	5.91%
Norges Bank	Custodian corporation/ approved lending agent	H Shares	28,169,000 (L,LP)	0.95%	5.28%
Citigroup Inc.	Person having a security interest in shares	H Shares	23,658,000 (L)	0.80%	4.43%

# CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

## Notes:

- (1) (L) – Long position; (S) – Short position; (LP) – Lending pool
- (2) Shanghai Dazhong Business Management Employee Share Ownership Committee\* (上海大眾企業管理有限公司職工持股會) is composed of (a) the employees of Shanghai Dazhong Business Management; (b) the employees of our Group; and (c) the employees of Dazhong Transportation Group. It is the beneficial owner of 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in the entire A Shares interests held by Shanghai Dazhong Business Management.
- (3) Shenergy (Group) Company Limited\* (申能(集團)有限公司) is the beneficial owner of the entire equity interests in Shanghai Gas Group and is deemed to be interested in the entire A Shares held by Shanghai Gas Group.
- (4) ENN Energy China Investment Limited is wholly owned by ENN Energy Holdings Limited (Stock Code: 02688.HK). Mr. Wang Yusuo is the controlling shareholder of ENN Energy Holdings Limited. Therefore, each of ENN Energy Holdings Limited and Mr. Wang Yusuo is deemed to be interested in the H Shares held by ENN Energy China Investment Limited under the SFO.
- (5) Haitong Securities Co., Limited beneficially owns 100% of Haitong International Holdings Limited. Haitong International Holdings Limited beneficially owns 61.78% of Haitong International Securities Group Limited. Haitong International Securities Group Limited beneficially owns 100% of Haitong International (BVI) Limited. Haitong International (BVI) Limited beneficially owns 100% of Hai Tong Asset Management (HK) Limited. Haitong Securities Co., Limited, Haitong International Holdings Limited, Haitong International Securities Group Limited and Haitong International (BVI) Limited are deemed to be interested in the 86,174,000 H Shares held by Hai Tong Asset Management (HK) Limited.
- (6) New China Asset Management (Hong Kong) Limited is owned as to 60.0% by New China Asset Management Company Limited, which is owned as to 99.4% by New China Life Insurance Company Limited (新華人壽保險股份有限公司) (stock code:1336.HK). Therefore, each of New China Asset Management Company Limited and New China Life Insurance Company Limited is deemed to be interested in the 53,859,000 H Shares held by New China Asset Management (Hong Kong) Limited.
- (7) Investstar Limited is a wholly-owned subsidiary of Towngas Investment Company Limited (煤氣投資有限公司), which is wholly owned by The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) (Stock Code: 0003.HK). Faxson Investment Limited owns 41.52% of The Hong Kong and China Gas Company Limited, a wholly-owned subsidiary of Henderson Land Development Company Limited. Henderson Land Development Company Limited is owned as to 72.7% by Henderson Development Limited. Therefore, each of Towngas Investment Company Limited (煤氣投資有限公司), The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司), Faxson Investment Limited, Henderson Land Development Company Limited and Henderson Development Limited is deemed to be interested in the 53,859,000 H Shares held by Investstar Limited under the SFO.
- (8) Hopkins (Cayman) Limited, as trustee of a unit trust (the "Unit Trust"), owns 100% of Henderson Development Limited. Rimmer (Cayman) Limited and Riddick (Cayman) Limited, as trustees of respective discretionary trusts, held units in the Unit Trust. Therefore, each of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited is deemed to be interested in the 53,859,000 H Shares held by Investstar Limited under the SFO.
- (9) Lee Shau Kee beneficially owns 100% of each of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Lee Shau Kee is deemed to be interested in the H Shares held by Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited, i.e. the 53,859,000 H Shares held by Investstar Limited.



# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Below sets out the biographical details of the current Directors, Supervisors and senior management of the Company as of the Latest Practicable Date. Details of all position currently held by Directors, Supervisors and senior management at the shareholders entities and at other entities can be found from page 95 to page 101 of this Annual Report.

### DIRECTORS

#### Executive Directors

**Mr. Yang Guoping (楊國平)**, aged 61, joined our Company in January 1992 and was appointed as the chairman of the Board and a Director of our Company on January 1, 1992. Mr. Yang is a member of the nomination committee and the remuneration and appraisal committee. He also holds positions in various listed companies, including Dazhong Transportation (Group) Co., Ltd.\* (大眾交通(集團)股份有限公司) (Shanghai A share listed; stock code: 600611, "Dazhong Transportation"), Shanghai Jiaoda Onlly Co., Ltd. (上海交大昂立股份有限公司) (Shanghai A share listed; stock code: 600530, "Shanghai Jiaoda Onlly"), Shanghai Jiao Yun Group Co., Ltd. (上海交運集團股份有限公司) (Shanghai A share listed; stock code: 600676; "Shanghai Jiao Yun"), Songz Automobile Air Conditioning Co., Ltd.\* (上海加冷松芝汽車空調股份有限公司) (Shenzhen listed; stock code: 002454), Everbright Securities Company Limited (光大證券股份有限公司) (Shanghai A share listed; stock code: 601788 and Hong Kong listed; stock code: 6178), Nanjiang Public Utilities Development Co., Ltd. (南京公用發展股份有限公司) (formerly known as Nanjing Zhongbei Group Co., Ltd. (南京中北(集團)股份有限公司) (Shenzhen listed; stock code: 000421) and Shanghai Shentong Metro Group Co., Ltd. (上海申通地鐵股份有限公司) (Shanghai A share listed; stock code: 600834). Mr. Yang was granted the title of senior economist by Shanghai Expertise Qualification Review Committee, Economics Series (Sphere of Production) (上海市經濟系列(生產領域)高級專業技術職務任職資格評審委員會) in April 1995. Mr. Yang is currently the council executive director (理事會常務理事) of China Association for Public Companies\* (中國上市公司協會) and council vice president (理事會副會長) of The Listed Companies Association of Shanghai (上海上市公司協會). He is also the honorary president of the seventh Shanghai Youth Entrepreneurs Association (上海市青年企業家協會), vice chairman of the eighth commission of Shanghai Youth Federation (上海市青年聯合會) and vice president of China Taxicab and Livery Association (中國出租汽車暨汽車租賃協會). Mr. Yang is also the president (理事長) of the Shanghai Association of Micro-credit (上海小額貸款公司協會). Mr. Yang was accredited as one of the top ten national outstanding young entrepreneurs\* (全國十大傑出青年企業家) by the Central Communist Youth League Organization Department (共青團中央) and the China Youth Entrepreneurs Association (中國青年企業家協會) in November 1995. He was honored as national labor model\* (全國勞動模範) by the PRC State Council\* (中華人民共和國國務院) in April 2000. Mr. Yang was accredited as one of the outstanding quality individual in the PRC (中國傑出質量人) by China Quality Association\* (中國質量協會) in October 2005. He is accredited as China influential MBA individual\* (中國MBA風雲人物) in December 2006. He also received the EY Entrepreneur Of The Year 2013\* (安永企業家獎2013大獎) accredited by Ernst & Whinney in November 2013. Mr. Yang was honored as the Outstanding Entrepreneur (傑出企業家) by the first session of China (Shanghai) Listing Companies' Social Liabilities Summit (首屆中國(上海)上市公司企業社會責任峰會) in December 2015. Mr. Yang received a master degree in business administration from Shanghai Jiao Tong University (上海交通大學) in July 1997.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Liang Jiawei (梁嘉璋)**, aged 44, joined our Company in September 2000 and was appointed as a Director of our Company on July 28, 2015. He has been the chief executive officer of our Company since June 2015 and used to serve as the manager of our investment and development department from January 2006 to June 2016, our secretary to the Board from April 2008 to June 2015 and our vice general manager from April 2014 to June 2015. Mr. Liang has been the director of Dazhong Transportation Since April 2016 and the director of Shanghai Jiada Onlly since June 2015. Mr. Liang is currently the vice president of Shanghai Leasing Industry Association (上海市租賃行業協會) and the vice president (副理事長) of Shanghai Association of Stock System Enterprises (上海市股份公司聯合會) He was granted the title of economist (finance) by PRC Ministry of Personnel\* (中華人民共和國人事部) in November 2000. Mr. Liang served as clerk of the general managers' office of Shanghai Jiao Yun from July 1995 to March 1999. He was accredited twice as outstanding secretary to the board\* (優秀董事會秘書) by The Listed Companies Association of Shanghai (上海上市公司協會) in April 2013 and May 2015, respectively. Mr. Liang was accredited as the excellent secretary to the board of listed companies\* (上市公司優秀董秘) in the eighth, ninth and tenth selection of New Fortune Gold Medal Secretary to the Board\* (新財富金牌董秘) held by the New Fortune magazine\* (新財富雜誌). He was also accredited as one of the 100 Best Board Secretaries of companies Listed on the Main Board of China in 2013\* (2013年度中國主板上市公司百佳董秘) by Securities Times\* (《證券時報》) in September 2014. Mr. Liang obtained a bachelor degree in administrative management from Shanghai University (上海大學) in July 1995 and a master degree in business administration from Preston University in the United States in November 2002.

**Ms. Yu Min (俞敏)**, aged 57, joined our Company in May 1999 and was appointed as Director of our Company on July 28, 2015. She used to be the manager of our human resources department from May 1999 to June 2016 and the employee representative Supervisor of our Company from May 2002 to July 2015. She has been our labor union president since August 2002, administrative director since April 2008 and party branch secretary since May 2011. She was granted the title of economist by Shanghai Title Reform Leading Group\* (上海市職稱改革工作領導小組) in December 1993. She is also accredited as Senior Operating Manager (高級經營師) by China General Chamber of Commerce\* (中國商業聯合會) in May 2012. Ms. Yu obtained a Master of Science degree in training and development from Saint Joseph's University in the United States in July 2003.

**Mr. Zhuang Jianhao (莊建浩)**, aged 56, joined our Company in January 2002 and served in various positions responsible for technology and management of our gas supply business sector. He was the assistant to chief executive officer from January 2002 to April 2008, a former Director from May 2002 to May 2003, a vice general manager from May 2002 to April 2008, and the chief technology officer from April 2008 to April 2014. Mr. Zhuang was re-appointed as a Director and vice general manager of our Company in April 2014. Mr. Zhuang has been the director of Suchuang Gas Corporation Limited (Hong Kong listed; stock code: 01430) since June 2016. He was granted the title of senior engineer by Shanghai Title Reform Leading Group\* (上海市職稱改革工作領導小組) in December 1995. Mr. Zhuang obtained a bachelor degree in coal chemical industry from East China Chemical Industry College\* (華東化工學院) (currently known as East China University of Science and Technology\* (華東理工大學)) in July 1983. He attended a joint master program in business administration from the University of Canberra in Australia and the East China University of Science and Technology\* (華東理工大學) and received master degrees in July and August 2004, respectively.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Yang Weibiao (楊衛標)**, aged 48, was appointed as an executive Director of our Company on May 25, 2017. He is also the general manager of the environmental business department of the Company. He joined the Company in March 2004. He served in various positions and was appointed as the assistant to chief executive officer of the Company in May 2014. He was further appointed as employee representative Supervisor on July 10, 2015. Mr. Yang was the assistant manager of investment and development department of Dazhong Transportation from November 2000 to February 2004. Mr. Yang obtained a bachelor degree in politics and administration from Fudan University\* (復旦大學) in July 1992 and a master degree in economics from Fudan University\* (復旦大學) in July 1999.

### Non-executive Directors

**Mr. Chan Wing Kin (陳永堅)**, B.B.S., C.Eng., F.H.K.I.E., F.I. Mech.E., F.I.G.E.M., F.E.I., M.Sc. (Eng), B.Sc. (Eng), aged 67, was appointed as an executive Director of our Company on May 25, 2017. He has been the managing director of The Hong Kong and China Gas Company Limited ("HKCG"), a company listed on the Hong Kong Stock Exchange (stock code: 0003) since May 1997, the vice chairman of Shenzhen Gas Corporation Ltd.\* (深圳市燃氣集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601139) since April 2004, and the chairman and an executive director of Towngas China Co. Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 1083) since March 1, 2007. Mr. Chan holds directorships in various subsidiaries of HKCG. One of the shareholders of the Company, Investstar Limited, is a wholly-owned subsidiary of HKCG. Mr. Chan was the Chairman of The Hong Kong Management Association from July 2014 to July 2016 and he is now the Honorary President of the same association. And he is a vice chairman of China Gas Association\* (中國城市燃氣協會) since November 2008, and a honorary chairman of Hong Kong Management Association since July 2016. He was appointed as a Member of the Standing Committee on Judicial Salaries and Conditions of Service by the Government of the Hong Kong Special Administrative Region for two years with effect from January 1, 2016. Mr. Chan obtained a bachelor's degree in mechanical engineering from Hong Kong University in 1974, and a master's degree in industrial engineering from the same university in 1983. He was conferred as an Honorary Fellowship by The Hong Kong Institute of Education in April 2016. Mr. Chan is a Chartered Engineer in the United Kingdom, Fellow of The Hong Kong Institution of Engineers; Fellow of The Institution of Mechanical Engineers, Fellow of the Institution of Gas Engineers & Managers and Fellow of The Energy Institute of the United Kingdom. Mr. Chan is also a Honorary Fellow of the International Institute of Utility Specialists. Mr. Chan received the Executive Award under the DHL/SCMP Hong Kong Business Awards in December 2005, the Director of the Year Awards — Listed Companies (SEHK — Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in November 2006, the Leadership Award in Gas Industry Award 2015 from the Institution of Gas Engineers & Managers and the Energy and Utilities Alliance of the United Kingdom. In October 2015 and October 2016, Mr. Chan was continuously named as one of the 100 Best-Performing CEOs in the World in 2015 and in 2016 by Harvard Business Review. In December 2015, Mr. Chan was honored with the Hall of Fame presented by The Hong Kong Institution of Engineers for his outstanding contributions to the engineering profession and the community.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Li Songhua (李松華)**, aged 57, joined our Company in May 2011 and has been a Director of our Company since then. Mr. Li has served Shanghai Gas Group (our Shareholder) as the manager of human resources department, as party committee member (黨委委員) from June 2011 to April 2012, and as secretary of discipline committee (紀委書記) subsequently. He has served as vice party secretary (黨委副書記) and labor union president (工會主席) of the same company since April 2012 and served as the chairman of Shanghai Rinnai Co., Ltd.\* (上海林內有限公司) since December 2013. He was granted the title of master of political work (政工師) by Corporate Ideological and Political Work Qualification Review Committee\* (企業思想政治工作人員專業職務評審委員會) in November 1995. Mr. Li graduated from Shanghai Huangpu District Amateur University\* (上海黃浦區業餘大學) in July 1990. He obtained a master degree in business administration from Macau University of Science and Technology in October 2004.

**Mr. Cheung Yip Sang (張葉生)**, aged 52, was appointed as a non-executive Director of our Company on May 25, 2017. He is the vice chairman of ENN Energy Holdings Limited (“ENN”), a company listed on the Hong Kong Stock Exchange (stock code: 2688) since March 2014. Mr. Cheung joined the group of ENN in 1998, was appointed as an executive director since April 2002 and chief executive officer since March 2010. Mr. Cheung graduated from The Chinese People’s Armed Police Force Academy with a bachelor’s degree in Legal Studies and received an executive master’s degree in business administration from the Peking University in 2006. Mr. Cheung was named as one of the “Asia’s Best CEOs (energy area)” by Institutional Investor in July 2012. He was also accredited as one of the “Excellent Private Entrepreneurs of Hebei Province in the year of 2013\* (2013年度河北省優秀民營企業家)” in May 2014.

### Independent non-executive Directors

**Mr. Wang Kaiguo (王開國)**, aged 58, was appointed as an independent non-executive Director of our Company on May 25, 2017. Mr. Wang is currently the president of PE Association of Shanghai (上海股權投資協會) and the vice president (副理事長) of Shanghai Financial Association (上海金融業聯合會). Mr. Wang worked successively as deputy head of application department\* (應用科室), chief of division of politics and laws, department of policies and regulations\* (政策法規司政法處) and deputy director of Research Institute of Administrative Bureau of State-owned Property\* (國家國有資產管理局研究所) from July 1990 to February 1995. He also served successively and/or simultaneously as deputy general manager, general manager, chairman of board of directors, secretary of party group\* (黨組書記) and secretary of party committee\* (黨委書記) of Haitong Securities Limited\* (海通證券有限公司) from February 1995 to December 2001. Mr. Wang served as chairman of board of directors and secretary of party committee\* (黨委書記) of Haitong Securities Company Limited\* (海通證券股份有限公司) from December 2001 to July 2016. Mr. Wang served as an independent director of Shanghai Chlor-Alkali Chemical Co., Ltd.\* (上海氯鹼化工股份有限公司), a company listed on Shanghai Stock Exchange

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(stock code: 600618) from December 2009 to December 2014. Mr. Wang also served as the vice president of the Securities Association of China (中國證券業協會). Mr. Wang obtained a bachelor's degree in economics from Jilin University\* (吉林大學) in July 1984 and a master's degree in economics from the same university in July 1987. Mr. Wang received his PH.D. in economics from Xiamen University\* (廈門大學) in May 1992. Mr. Wang was granted the title of senior economist by Bank of Communications Ltd. Expertise Qualification Review Committee, Economic and Accounting Series\* (交通銀行經濟會計系列高級專業技術服務評審委員會) in December 1997. Mr. Wang was selected as “the Best Head of Listed Company\* (最佳上市公司掌門人)” by the ninth Hexun.com China Financial Billboard\* (和訊網中國財經風雲榜) in January 2012, won the title of “the Most Influential Leader\* (最具影響力領袖)” in China Securities Golden Bauhinia Award held by Ta Kung Pao in November 2012. He was also awarded as “Top 100 Business Leader of China Listed Company\* (中國上市公司百強企業領袖獎)” by China Business Top 100\* (中國上市公司百強高峰論壇) in September 2014, and “the Most Strategic Chairman\* (最具戰略眼光董事長)” of Round Table Award\* (金圓桌獎) held by Directors & Boards Magazine\* (《董事會》雜誌) in November 2014.

**Mr. Yao Cho Fai Andrew (姚祖輝)**, aged 52, joined our Company in July 2015 and was appointed as an independent non-executive Director of our Company on July 28, 2015. Mr. Yao is the chairman of nomination committee and remuneration and appraisal committee, and member of audit committee. Mr. Yao has been the chairman, executive director and chairman of the nomination committee and member of the remuneration committee of Hong Kong Shanghai Alliance Holdings Limited (formerly known as Van Shung Chong Holdings Limited) (Hong Kong listed; stock code: 1001) since January 1994. Mr. Yao has been the independent non-executive director of Grand Investment International Ltd. (Hong Kong listed; stock code: 1160) from February 2004 to June 2009, non-executive director of North Asia Strategic Holdings Limited (Hong Kong listed; stock code: 8080) from June 2008 to September 2011 and independent non-executive director of Kader Holdings Company Limited (Hong Kong listed; stock code: 180) since September 2004. He obtained a bachelor degree in business management from the University of California, Berkeley in May 1988 and a master degree in business administration from Harvard University in June 1992. He serves as the Hong Kong Deputy to the 12th National People's Congress (NPC) of PRC\* (第十二屆港區全國人大代表), the chairman of Hong Kong-Shanghai Economic Development Association\* (滬港經濟發展協會), the vice-chairman of Lingnan University (嶺南大學) in Hong Kong, the president of the Joint Association of Shanghai and Hong Kong\* (上海香港聯會), the vice president of Shanghai Overseas Chinese Friendship Association\* (上海海外聯誼會), the vice-chairman of Shanghai Federation of Industry & Commerce\* (上海市工商業聯合會) and the board member of Fudan University\* (復旦大學) in Shanghai. He was awarded Young Industrialist Award of Hong Kong\* (香港青年工業家獎) by Federation of Hong Kong Industries in 2004. He was also awarded Justice of Peace\* (太平紳士) by the Hong Kong government in 2008.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Chow Siu Lui (鄒小磊)**, aged 57, joined our Company and was appointed as an independent non-executive Director of our Company in April 2016. Mr. Chow has served as managing director of private equity team and is currently a partner of VMS Investment Group Limited \* (鼎佩投資集團有限公司) since April 2012. Mr. Chow has been the independent non-executive director of NWS Holdings Limited (新創建集團有限公司) (Hong Kong listed; stock code: 00659) from March 2012 to June 2012, Kong Shum Union Property Management (Holding) Limited (Hong Kong listed; stock code: 8181) from February 2015 to October 2015, Fullshare Holdings Limited (Hong Kong listed; stock code: 00607) since December 2013, Universal Medical Financial & Technical Advisory Services Company Limited (Hong Kong listed; stock code: 2666) since June 2015 and Sinco Pharmaceuticals Holdings Limited (Hong Kong listed stock code: 6833) since September 2015. Mr. Chow obtained his qualification as a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) in July 1991, the Hong Kong Institute of Certified Public Accountants (香港會計師公會) (“HKICPA”, formerly known as Hong Kong Society of Accountants) in December 1993, the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) (“HKICS”) in 2009, and the Institute of Chartered Secretaries and Administrators (英國特許秘書及行政人員公會) in 2009. Mr. Chow was appointed as the chairman of the mainland development strategies advisory panel and a member of the registration and practicing committee of the HKICPA for the year 2016 in February 2016 (he currently still serves as the chairman of the mainland development strategies advisory panel). Mr. Chow was appointed as a council member and chairman of audit committee of the HKICS in December 2015. Mr. Chow currently serves as a member of the investment management committee of the HKICS. He obtained a professional diploma in accountancy from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1983.

**Mr. Wang Hongxiang (王鴻祥)**, aged 62, was appointed as an independent non-executive Director of our Company on May 25, 2017. He was a teacher of Department of Accounting, Shanghai University of Finance and Economics\* (上海財經大學) from August 1983 to November 1998, and the deputy chief accountant of Shenergy (Group) Company Limited\* (申能(集團)有限公司) from December 1998 to October 2016. Mr. Wang has served as a director of Haitong Securities Company Limited\* (海通證券股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600837) since May 2011, an independent director of Goldenmax International Technology Ltd.\* (金安國紀科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002636) since December 2014, an independent director of Apple Flavor & Fragrance Group Co., Ltd.\* (愛普香料集團股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 603020) since September 2016, an independent director of Shanghai Beite Technology Co., Ltd.\* (上海北特科技股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 603009) since October 2016, and an independent director of Shanghai Yuyuan Tourist Mart Co., Ltd.\* (上海豫園旅游商城股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600655) since December 2016. Mr. Wang obtained a bachelor’s degree in accounting from Xiamen University (廈門大學) in July 1983. He received his executive master of business administration from Shanghai University of Finance and Economics\* (上海財經大學) in March 2006. Mr. Wang was accredited as a non-practising member by Shanghai Institute of Certified Public Accountants\* (上海市註冊會計師協會) in August 1995. And he was granted the title of senior accountant by Shanghai Expertise Qualification Review Committee, Accounting Series\* (上海市會計系列高級專業技術職務任職資格評審委員會) in October 2015.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Liu Zhengdong (劉正東)**, aged 48, was appointed as an independent non-executive Director of our Company on May 25, 2017. He is currently a senior partner and Director (高級合伙人及主任) of Shanghai Junyue Law Firm\* (上海市君悅律師事務所). Mr. Liu had served as an independent director of Shanghai Liangxin Electrical Co., Ltd.\* (上海良信電器股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002706) from April 2011 to April 2017. He has been an independent director of Jiangsu Jintongling Fluid Machinery Technology Co., Ltd.\* (江蘇金靈通流體機械科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300091) since September 2014, an independent director of Hualing Xingma Automobile (Group) Co., Ltd.\* (華菱星馬汽車(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600375) since January 2016, an independent director of Anhui Huaxin International Holdings Co., Ltd.\* (安徽華信國際控股股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002018) since February 2016, and an independent director of Shanghai Jiao Da Onlly Co., Ltd.\* (上海交大昂立股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600530) since April 2016. Mr. Liu also currently serves as a council member of All China Lawyers Association (中華全國律師協會), vice president of Shanghai Chamber of Commerce\* (上海市總商會) and an arbitrator under the China International Economic and Trade Arbitration Commission (中國國際經濟仲裁委員會). Mr. Liu obtained a bachelor's degree in laws from East China University of Political Science and Law (華東政法大學) (formerly known as East China Academy of Political Science and Law (華東政法學院)) in July 1991, and a master's degree in international economic laws from the same university in June 2002. He obtained independent director qualification certificate which authorized by CSRC in March 2002. Mr. Liu has been named as "Shanghai Outstanding Non-litigation Lawyer\* (上海市優秀非訴律師)" by Shanghai Lawyers Association\* (上海市律師協會) in December 2004, the "National Outstanding Lawyer\* (全國優秀律師)" by All China Lawyers Association\* (中華全國律師協會) in June 2005, and "Shanghai Leader Talent\* (上海市領軍人物)" by Organization Department of CPC Shanghai Committee\* (中共上海市委組織部) and Shanghai Municipal Bureau of Human Resources and Social Security\* (上海市人力資源和社會保障局) in January 2010. Mr. Liu has been selected as a member of expert advisor panel of Shanghai Municipal People's Congress House Judiciary Committee\* (上海市人民代表大會內務司法委員會) since April 2014, a member of Shanghai Press Ethics Committee\* (上海市新聞道德委員會) since May 2013, and a people supervisor\* (人民監督員) of Shanghai People's Procuratorate\* (上海市檢察院) since February 2017.

### SUPERVISORS

**Mr. Yang Jicai (楊繼才)**, aged 59, joined the Company in May 2004 and was appointed as Supervisor of our Company in May 2017. is currently an executive Director of the ninth session of the Board appointed on May 19, 2011. He served as assistant to chief executive officer of the Company from May 2004 to May 2005 and has been the vice general manager of the Company since August 2005. Mr. Yang served as director of China United Travel Company Limited (國旅聯合股份有限公司) (Shanghai A share listed; stock code: 600358) from December 1998 to April 2005. He graduated from Shanghai Medical Devices College\* (上海醫療器械工業專科學校) (currently known as Shanghai Health Medical College\* (上海健康醫學院)) in July 1981, majoring in machinery. Mr. Yang graduated from Shanghai Administrative Management Leader College\* (上海市行政管理幹部學院) (currently known as Shanghai Administrative College\* (上海行政學院)) in July 1990, majoring in administrative management. He completed the master course in international economy and trade and investment environment from East China Normal University (華東師範大學) and graduated in July 1997.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Ms. Zhao Siyuan (趙思淵)**, aged 46, joined our Company in April 2014 and was appointed as Supervisor of our Company in April 2014. Ms. Zhao has been the manager of legal department from July 1993 to August 2008, secretary to the board since August 2008 and director and vice general manager since May 2015 of Dazhong Transportation and the chairman of Shanghai Dazhong Business Management (our Shareholder) since June 2013. Ms. Zhao is accredited as excellent secretary to the board\* (優秀董事會秘書) by The Listed Companies Association of Shanghai\* (上海上市公司協會) in May 2015. Ms. Zhao obtained a bachelor degree in law from Shanghai University\* (上海大學) in July 1993.

**Ms. Zhao Fei (趙飛)**, aged 39, was appointed as Supervisor of our Company in May 2017. She joined our company in February 2004 and was served as secretary to the Board from June 2015 to May 2017. She is currently a joint company secretary of the Company. She has been a legal staff of the Company and has been the general manager of our legal department since March 2014. She was further promoted as secretary to the Board on June 18, 2015. Ms. Zhao was the in-house legal assistant of Dazhong Transportation from July 2000 to December 2003. Ms. Zhao passed the PRC judicial exam and received the qualification of legal profession (法律職業資格證) by Ministry of Justice of the People's Republic of China (中華人民共和國司法部) in February 2007. Ms. Zhao obtained a bachelor degree in law from Shanghai University of Finance and Economics (上海財經大學) in July 2000 and a master degree in law from Fudan University (復旦大學) in January 2011.

### SENIOR MANAGEMENT

Three of our executive Directors, namely Mr. Liang Jiawei (梁嘉璋), Mr. Zhuang Jianhao (莊建浩) and Mr. Yang Weibiao (楊衛標) concurrently hold senior management positions in our Group. For each of their biographies, please refer to this section above.

**Jin Bo (金波)**, aged 46, was appointed as the vice president and secretary of the Board of our Company on May 25, 2017. Mr. Jin joined the Company in May 2010 as the investment director and served as a director and the general manager of Shanghai Dazhong Group Capital Equity Investment Co., Ltd.\* (上海大眾集團資本股權投資有限公司), a subsidiary of the Company, until September 2015. From May 2013 to September 2015, he served as a director, the secretary to the board of directors and the deputy general manager of Shanghai Electronic Intelligence System Co., Ltd.\* (上海電科智能系統股份有限公司), a company in which the Company held an interest. He served as the general manager of Shanghai Huiying Asset Management Co., Ltd.\* (上海匯映資產管理有限公司) from September 2015 to May 2016 and the secretary to the board of directors and assistant to the president of China Grand Automotive Services Co., Ltd.\* (廣匯汽車服務股份公司) from May 2016 to September 2016. Mr. Jin Bo rejoined the Company in September 2016 as the investment director and has served as the Secretary to the Board and investment director of the Company since March 2017.

**Zhao Ruijun (趙瑞鈞)**, aged 54, was appointed as the vice financial officer of our Company on May 25, 2017. Mr. Zhao obtained the qualification of accountant in the PRC in May 26, 1996, and acted as the financial officer of Shanghai Dazhong Gas Co., Ltd since 2001. He was graduated from Beijing Institute of Metallurgy Management\* (北京冶金管理幹部學院) in accountancy in April 1997 and obtained a Master degree of Business Administration from China University of Science and Technology in June 2004.



# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

### 1. Changes

Name	Current Position	Change	Reason for change
Yang Weibiao (楊衛標)	Executive Director and vice president	Appointed. Mr. Yang Weibiao (former Supervisor of the ninth session of the Supervisory Committee) was appointed as an executive Director of the tenth session of the Board with a term of three years commencing from the 2016 AGM and appointed as vice president of the Company by the Board on May 25, 2017.	Election of new session of the Board
Chan Wing Kin (陳永堅)	Non-executive Director	Appointed. Mr. Chan Wing Kin was appointed as a non-executive Director of the tenth session of the Board with a term of three years commencing from the 2016 AGM.	Election of new session of the Board
Cheung Yip Sang (張葉生)	Non-executive Director	Appointed. Mr. Cheung Yip Sang was appointed as a non-executive Director of the tenth session of the Board with a term of three years commencing from the 2016 AGM.	Election of new session of the Board

\* For identification purpose only

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Current Position	Change	Reason for change
Wang Kaiguo (王開國)	Independent non-executive Director and chairman of the Remuneration and Appraisal Committee	Appointed. Mr. Wang Kaiguo was appointed as an independent non-executive Director the tenth session of the Board with a term of three years commencing from the 2016 AGM and chairman of the Remuneration and Appraisal Committee by the Board on May 25, 2017.	Election of new session of the Board
Wang Hongxiang (王鴻祥)	Independent non-executive Director and chairman of the Audit Committee	Appointed. Mr. Wang Hongxiang was appointed as an independent non-executive Director of the tenth session of the Board with a term of three years commencing from the 2016 AGM and chairman of the Audit Committee by the Board on May 25, 2017.	Election of new session of the Board
Liu Zhengdong (劉正東)	Independent non-executive Director	Appointed. Mr. Liu Zhengdong was appointed as an independent non-executive Director of the tenth session of the Board with a term of three years commencing from the 2016 AGM.	Election of new session of the Board
Zhong Jinxing (鍾晉倅)	–	Retired. Mr. Zhong Jinxing retired from his position as executive Director at the 2016 AGM.	Retirement

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Current Position	Change	Reason for change
Yang Jicai (楊繼才)	Supervisor and chairman of the tenth session of the Supervisory Committee	Expiry of appointment. Mr. Yang Jicai retired from his position as executive Director at the 2016 AGM.  Appointed. Mr. Yang Jicai was appointed as Supervisor of the tenth session of the Supervisory Committee with a term of three years commencing from the 2016 AGM and chairman of the tenth session of the Supervisory Committee by the Supervisory Committee on May 25, 2017.	Expiry of appointment  Election of new session of the Supervisory Committee
Cai Jianmin (蔡健民)	–	Retired. Mr. Cai Jianmin retired from his position as independent nonexecutive Director, and the position as chairman of the Audit Committee and member of the Remuneration and Appraisal Committee and Nomination Committee at the 2016 AGM.	Retirement
Yan Xuehai (顏學海)	–	Resigned. Mr. Yan Xuehai resigned from his position as independent non-executive Director and the position as member of the Audit Committee on February 20, 2017 and with effect from the 2016 AGM.	Health condition

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Current Position	Change	Reason for change
Cao Yongqin (曹永勸)	–	Retired. Mr. Cao Yongqin retired from his position as Supervisor at the 2016 AGM.	Retirement
Zhao Fei (趙飛)	Employee representative Supervisor and joint company secretary	Resigned. Ms. Zhao Fei resigned from her position as secretary to the Board by the Board February 2017.	Resigned from position as secretary to the Board
		Elected. Ms. Zhao Fei was elected by the employee congress of the Company as the employee representative Supervisor of the tenth session of the Supervisory Committee.	Election of new session of Supervisory Committee
		Appointed. Ms. Zhao Fei was appointed as general manager of legal department.	Appointment by the Company
Jin Bo (金波)	Vice president and secretary to the Board	Appointed. Mr. Jin Bo was appointed as vice president of the Company and secretary to the Board by the Board on May 25, 2017.	Appointment by the Board

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Current Position	Change	Reason for change
Zhao Ruijun (趙瑞鈞)	Vice financial officer (財務副總監)	Appointed. Mr. Zhao Ruijun was appointed as vice financial officer of the Company by the Board on May 25, 2017.	Appointment by the Board
Liang Jiawei (梁嘉瑋)	Executive Director and president	Appointed. Mr. Liang Jiawei was re-elected as executive Director with a term of three years commencing from the 2016 AGM and appointed as president of the Company by the Board on May 25, 2017.	Appointment by the Board
Zhuang Jianhao (莊建浩)	Executive Director and vice president	Appointed. Mr. Zhuang Jianhao was re-elected as executive Director with a term of three years commencing from the 2016 AGM and appointed as vice president of the Company by the Board on May 25, 2017.	Appointment by the Board

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## 2. Directors

During the Reporting Period, the Company completed the election of new members of the Board and re-designated six directors, accounting for 46.15% of the total directors. The details are as follows:

### Members of the ninth session of the Board

No.	Name	Position
1.	Yang Guoping 楊國平	Chairman
2.	Zhong Jinxing 鐘晉倅	Vice Chairman of the Board
3.	Liang Jiawei 梁嘉瑋	Director
4.	Yu Min 俞敏	Director
5.	Yang Jicai 楊繼才	Director
6.	Zhuang Jianhao 莊建浩	Director
7.	Li Songhua 李松華	Director
8.	Cai Jianmin 蔡建民	Independent non-executive director
9.	Yan Xuehai 顏學海	Independent non-executive director
10.	Yao Cho Fai Andrew 姚祖輝	Independent non-executive director
11.	Chow Siu Lui 鄒小磊	Independent non-executive director

### Members of the tenth session of the Board

No.	Name	Position
1.	Yang Guoping 楊國平	Chairman of the Board
2.	Liang Jiawei 梁嘉瑋	Executive Director
3.	Yu Min 俞敏	Executive Director
4.	Zhuang Jianhao 莊建浩	Executive Director
5.	Yang Weibiao 楊衛標	Executive Director
6.	Chan Wing Kin 陳永堅	Non-executive Director
7.	Li Songhua 李松華	Non-executive Director
8.	Cheung Yip Sang 張葉生	Non-executive Director
9.	Wang Kaiguo 王開國	Independent non-executive Director
10.	Yao Cho Fai Andrew 姚祖輝	Independent non-executive Director
11.	Chow Siu Lui 鄒小磊	Independent non-executive Director
12.	Wang Hongxiang 王鴻祥	Independent non-executive Director
13.	Liu Zhengdong 劉正東	Independent non-executive Director

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## 3. Supervisors

During the Reporting Period, the Company completed the election of new members of the Supervisors Committee and re-designated two supervisors, accounting for 66.67% of the total supervisors. The details are as follows:

### Members of the ninth session of the Supervisory Committee

No.	Name	Position
1.	Cao Yongqin 曹永勤	Chairman of the Supervisory Committee
2.	Zhao Siyuan 趙思淵	Supervisor
3.	Yang Weibiao 楊衛標	Employee Supervisor

### Members of the tenth session of the Supervisory Committee

No.	Name	Position
1.	Yang Jicai 楊繼才	Chairman of the Supervisory Committee
2.	Zhao Siyuan 趙思淵	Supervisor
3.	Zhao Fei 趙飛	Employee Supervisor

## 4. Senior management

During the Reporting Period, the Company re-designated three senior management, accounting for 60% of the total supervisors. The details are as follows:

### At of the end of 2016

No.	Name	Position
1.	Liang Jiawei 梁嘉瑋	General manager
2.	Yang Jicai 楊繼才	Deputy general manager
3.	Zhuang Jianhao 莊建浩	Deputy general manager
4.	Zhong Jinxing 鐘晉倅	Finance Controller
5.	Zhao Fei 趙飛	Secretary to the Board, General manager of the Department of Legal Matters

### As of the end of the Reporting Period

No.	Name	Position
1.	Liang Jiawei 梁嘉瑋	President
2.	Zhuang Jianhao 莊建浩	Vice President
3.	Yang Weibiao 楊衛標	Vice President
4.	Jin Bo 金波	Vice President, Secretary to the Board
5.	Zhao Ruijun 趙瑞鈞	Vice Financial Officer (presiding over the work)

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

### (I) Positions in shareholders entities

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

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

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

### (I) Positions in other entities

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Yang Guoping (楊國平)	Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司)	Chairman and General Manager	May 15, 2015	May 14, 2018
Yang Guoping (楊國平)	Shanghai Jiaoda Onlly Co., Ltd. (上海交大昂立股份有限公司)	Chairman	June 25, 2015	June 24, 2018
Yang Guoping (楊國平)	Shanghai Dazhong Gas Co., Ltd. (上海大眾燃氣有限公司)	Chairman	September 28, 2001	–



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Yang Guoping (楊國平)	Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司)	Vice Chairman	May 25, 2012	–
Yang Guoping (楊國平)	Shanghai Jian Yun Group Co., Ltd. (上海交運集團股份有限公司)	Director	April 18, 2016	April 17, 2019
Yang Guoping (楊國平)	Everbright Securities Co. Ltd (光大證券股份有限公司)	Director	September 15, 2014	September 14, 2017
Yang Guoping (楊國平)	Nanjiang Public Utilities Development Co., Ltd. (南京公用發展股份有限公司)	Director	May 20, 2015	May 19, 2018
Yang Guoping (楊國平)	Songz Automobile Air Conditioning Co., Ltd. (上海加冷松芝汽車空調股份有限公司)	Director	May 16, 2017	May 15, 2020
Yang Guoping (楊國平)	HFT Investment Management Co., Ltd. (海富通基金管理有限公司)	Independent Director	March 16, 2016	March 16, 2019
Yang Guoping (楊國平)	Shanghai Shentong Metro Group Co., Ltd. (上海申通地鐵股份有限公司)	Independent Director	May 9, 2017	May 9, 2020
Yang Guoping (楊國平)	Bright Real Estate Group Co., Limited (光明房地產集團股份有限公司)	Independent Director	August 21, 2015	August 20, 2018

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Liang Jiawei (梁嘉璋)	Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司)	Director	May 15, 2015	May 14, 2018
Liang Jiawei (梁嘉璋)	Shanghai Jiaoda Onlly Co., Ltd. (上海交大昂立股份有限公司)	Director	June 25, 2015	June 24, 2018
Liang Jiawei (梁嘉璋)	Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司)	Director	July 2015	–
Liang Jiawei (梁嘉璋)	Shanghai Dazhong Financial Leasing Co., Ltd. (上海大眾融資租賃有限公司)	Vice Chairman	December 24, 2014	December 23, 2017
Liang Jiawei (梁嘉璋)	Shanghai Dazhong Group Capital Equity Investment Co., Ltd. (上海大眾集團資本股權投資有限公司)	Vice Chairman	April 22, 2010	–
Liang Jiawei (梁嘉璋)	Shanghai Electronic Intelligence System Co., Ltd. (上海電科智能系統股份有限公司)	Vice Chairman	March 2015	–
Yu Min (俞敏)	Hainan Dazhong Ocean Industry Co., Ltd. (海南大眾海洋產業有限公司)	Director	April 25, 2012	–
Yu Min (俞敏)	Shanghai Dazhong Group Capital Equity Investment Co., Ltd. (上海大眾集團資本股權投資有限公司)	Supervisor	April 22, 2010	–
Yu Min (俞敏)	Shanghai Dazhong Asset Management Co., Ltd. (上海大眾資產管理有限公司)	Supervisor	August 8, 2014	August 7, 2017

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Yang Jicai (楊繼才)	Jiangsu Dazhong Water Group Co., Ltd. (江蘇大眾水務集團有限公司)	Chairman	April 7, 2016	–
Yang Jicai (楊繼才)	Shanghai Dazhong Environment Industry Co., Ltd. (上海大眾環境產業有限公司)	Chairman	July 14, 2003	August 31, 2017
Yang Jicai (楊繼才)	Shanghai Dazhong Jiading Sewage Co., Ltd. (上海大眾嘉定污水處理有限公司)	Chairman	March 2006	February 7, 2018
Yang Jicai (楊繼才)	Hangzhou Xiaoshan Qiantang Sewage Co., Ltd. (杭州蕭山錢塘污水處理有限公司)	General Manager	February 2004	November 27, 2017
Zhuang Jianhao (莊建浩)	Shanghai Dazhong Gas Co., Ltd. (上海大眾燃氣有限公司)	Director, Vice General Manager and Chief Engineer	April 2013	–
Zhuang Jianhao (莊建浩)	Suchuang Gas Corporation Limited (蘇創燃氣股份有限公司)	Non-executive director	June 30, 2016	June 29, 2019
Zhuang Jianhao (莊建浩)	Nantong Dazhong Gas Co., Ltd. (南通大眾燃氣有限公司)	Chairman	April 7, 2016	–
Li Songhua (李松華)	Shanghai Rinnai Co., Ltd. (上海林內有限公司)	Chairman	December 12, 2013	–
Li Songhua (李松華)	Shenergy (Group) Company Limited (申能(集團)有限公司)	Vice Chairman of Labor Union	–	–
Li Songhua (李松華)	Shanghai Dazhong Gas Co., Ltd. (上海大眾燃氣有限公司)	Vice Chairman	December 18, 2013	–

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Yao Cho Fai Andrew (姚祖輝)	Hong Kong Shanghai Alliance Holdings Limited (滬港聯合控股有限公司)	Chairman	January 1994	–
Yao Cho Fai Andrew (姚祖輝)	Kader Holdings Company Limited (開達集團有限公司)	Independent non-executive director	September 2004	–
Chow Siu Lui (鄧小磊)	VMS Investment Group Limited (鼎佩投資集團有限公司)	Partner	April 2012	–
Chow Siu Lui (鄧小磊)	Fullshare Holdings Limited (豐盛控股有限公司)	Independent director	December 1, 2016	–
Chow Siu Lui (鄧小磊)	Universal Medical Financial & Technical Advisory Services Company Limited (環球醫療金融與技術諮詢服務有限公司)	Independent director	September 6, 2015	–
Chow Siu Lui (鄧小磊)	Sinco Pharmaceuticals Holdings Limited (興科蓉醫藥控股有限公司)	Independent director	February 1, 2016	–
Chow Siu Lui (鄧小磊)	Futong Technology Development Holdings Limited (富通科技發展有限公司)	Independent non-executive director	December 2016	–
Chow Siu Lui (鄧小磊)	CEB Greentech Co. Ltd. (中國光大綠色環保有限公司)	Independent non-executive director	January 2017	–
Yang Weibiao (楊衛標)	Shanghai Minhang Dazhong Micro-credit Co., Ltd. (上海閔行大眾小額貸款股份有限公司)	Director	June 5, 2013	June 22, 2017
Yang Weibiao (楊衛標)	Jiangsu Dazhong Water Group Co., Ltd. (江蘇大眾水務集團有限公司)	Director	April 7, 2016	–
Yang Weibiao (楊衛標)	Shanghai Dazhong Jiading Sewage Co., Ltd. (上海大眾嘉定污水處理有限公司)	General Manager	April 2016	–

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Chan Wing Kin (陳永堅)	The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司)	Managing Director	May 1, 1997	–
Chan Wing Kin (陳永堅)	Towngas China Co. Ltd. (港華燃氣有限公司)	Chairman and Executive Director	March 1, 2007	–
Chan Wing Kin (陳永堅)	Shenzhen Gas Corporation Ltd. (深圳市燃氣集團股份有限公司)	Vice Chairman	September 12, 2013	–
Cheung Yip Sang (張葉生)	ENN Group Ltd. (新奧集團股份有限公司)	Chief Executive Officer (總裁)	September 2017	–
Cheung Yip Sang (張葉生)	ENN Energy Holdings Limited (新奧能源控股有限公司)	Vice Chairman of the Board	February 2014	–
Wang Kaiguo (王開國)	Shanghai Zhongping Guoyu Asset Management Ltd. (上海中平國瑞資產管理有限公司)	Chairman	November 22, 2016	–
Wang Hongxiang (王鴻祥)	Shanghai Yuyuan Tourist Mart Co., Ltd. (上海豫園旅游商城股份有限公司)	Independent Director	December 29, 2016	December 28, 2019
Wang Hongxiang (王鴻祥)	Goldenmax International Technology Ltd. (金安國紀科技股份有限公司)	Independent Director	November 14, 2014	January 3, 2018
Wang Hongxiang (王鴻祥)	Apple Flavor & Fragrance Group Co., Ltd. (愛普香料集團股份有限公司)	Independent Director	June 13, 2016	September 12, 2019
Wang Hongxiang (王鴻祥)	Shanghai Beite Technology Co., Ltd. (上海北特科技股份有限公司)	Independent Director	October 31, 2016	January 26, 2018

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Liu Zhengdong (劉正東)	Shanghai Junyue Law Firm (上海市君悅律師事務所)	Senior Partner and Director (高級合伙人、主任)	November 1, 1998	–
Liu Zhengdong (劉正東)	Hualing Xingma Automobile (Group) Co., Ltd. (華菱星馬汽車(集團)股份有限公司)	Independent Director	January 11, 2016	–
Liu Zhengdong (劉正東)	Anhui Huaxin International Holdings Co., Ltd. (安徽華信國際控股股份有限公司)	Independent Director	February 23, 2016	–
Liu Zhengdong (劉正東)	Sinopharm Group Co. Ltd. (國藥控股股份有限公司)	Independent Non-executive Director	September 21, 2014	–
Liu Zhengdong (劉正東)	Shanghai Jiaoda Onlly Co. Ltd. (上海交大昂立股份有限公司)	Independent Director	April 25, 2016	–
Zhao Siyuan (趙思淵)	Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司)	Director, Vice General Manager and Secretary of the Board	May 15, 2015	May 14, 2018
Jin Bo (金波)	Shanghai Xiangyin Road Tunnel Construction Development Co., Ltd. (上海翔殷路隧道建設發展有限公司)	Executive director, general manager	August 31, 2017	August 29, 2020
Jin Bo (金波)	Shanghai Dazhong Municipal Development Co., Ltd. (上海大眾市政發展有限公司)	Executive director, general manager	August 23, 2017	August 29, 2020
Jin Bo (金波)	Shanghai Yichen Investment Management Co., Ltd. (上海宜琛投資管理有限公司)	Supervisor	October 26, 2015	October 25, 2021
Jin Bo (金波)	Shenzhen Sinovatio Technology Co., LTD (深圳市中新賽克科技股份有限公司)	Supervisor	June 15, 2015	–

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

To the best knowledge of the Directors, as of December 31, 2017, the beneficial interests or short positions of the Directors, Supervisors and the chief executives in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein; or (c) pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

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

#### Long Position:

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

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Notes:

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

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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



# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

### I. Changes in shareholding and remuneration

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

Unit: share  
RMB

Name	Position	Gender	Age	Commencement date of the term	Cessation date of the term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in shares held for the year	Total remuneration before tax received from the Group during the Reporting Period (RMB'0000)	Whether he/she received remuneration from the Company's related parties
Yang Guoping (楊國平)	Chairman of the Board	Male	61	2017.5.25	2020.5.25	2,097,861	2,097,861	0	192	Yes
Liang Jiawei (梁嘉偉)	Executive Director, President	Male	44	2017.5.25	2020.5.25	222,300	222,300	0	212	No
Yu Min (俞敏)	Executive Director	Female	57	2017.5.25	2020.5.25	712,621	712,621	0	203	No
Zhuang Jianhao (莊建浩)	Executive Director, Vice President	Male	56	2017.5.25	2020.5.25	115,000	115,000	0	153	No
Yang Weibiao (楊衛標)	Executive Director, Vice President	Male	48	2017.5.25	2020.5.25	54,000	54,000	0	124	No
Chan Wing Kin (陳永堅)	Non-Executive Director	Male	67	2017.5.25	2020.5.25	0	0	0	0	No
Li Songhua (李鬆華)	Non-Executive Director	Male	57	2017.5.25	2020.5.25	0	0	0	0	No
Cheung Yip Sang (張葉生)	Non-Executive Director	Male	52	2017.5.25	2020.5.25	0	0	0	0	No
Wang Kaiguo (王開國)	Independent Non-Executive Director	Male	58	2017.5.25	2020.5.25	0	0	0	0	No
Yao Chao Fai Andrew (姚祖輝)	Independent Non-Executive Director	Male	52	2017.5.25	2020.5.25	0	0	0	10	No
Chow Siu Lui (鄒小磊)	Independent Non-Executive Director	Male	57	2017.5.25	2020.5.25	0	0	0	10	No
Wang Hongxiang (王鴻祥)	Independent Non-Executive Director	Male	62	2017.5.25	2020.5.25	0	0	0	0	No
Liu Zhengdong (劉正東)	Independent Non-Executive Director	Male	48	2017.5.25	2020.5.25	0	0	0	0	No
Yang Jicai (楊繼才)	Chairman of the Supervisory Committee	Male	59	2017.5.25	2020.5.25	500,306	500,306	0	125	No

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Commencement date of the term	Cessation date of the term	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in shares held for the year	Total remuneration before tax received from the Group during the Reporting Period (RMB'0000)	Whether he/she received remuneration from the Company's related parties
Zhao Siyuan (趙思源)	Supervisor	Female	46	2017.5.25	2020.5.25	0	0	0	30	Yes
Zhao Fei (趙飛)	Employee Supervisor, General Manager of the legal department	Female	39	2017.5.25	2020.5.25	50,000	50,000	0	113	No
Jin Bo (金波)	Vice President, Secretary of the Board	Male	46	2017.5.25	2020.5.25	0	0	0	138	No
Zhao Ruijun (趙瑞鈞)	Vice Finance Controller	Male	54	2017.5.25	2020.5.25	0	0	0	140	No
Zhong Jinxing (鍾晉倅)	Vice Chairman of the Board, Finance Controller (retired)	Male	63	2014.4.29	2017.4.29	495,059	495,059	0	193	No
Cai Jianmin (蔡建民)	Independent Non-Executive Director (retired)	Male	73	2014.4.29	2017.4.29	0	0	0	0	No
Yan Xuehai (顏學海)	Independent Non-Executive Director (retired)	Male	47	2014.4.29	2017.2.20	0	0	0	0	No
Cao Yongqin (曹永勤)	Chairman of the Supervisory Committee (retired)	Female	59	2014.4.29	2017.4.29	57,387	57,387	0	0	No
YANG Weibiao (楊衛標)	Supervisor (resigned)	Male	48	2015.7.10	2017.4.29	0	0	0	0	No
Zhao Fei (趙飛)	Secretary of the Board (resigned)	Female	39	2015.6.18	2017.2.14	50,000	50,000	0	0	No
			/	/	/	4,304,534	4,304,534	0	1,643	/

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

### II. Remunerations of Directors, Supervisors and Senior Management

Decision-making process of remunerations of directors, supervisors and senior management

The remuneration plans of the salaried Directors, Supervisors and Senior Management are considered at the annual Remuneration and Appraisal Committee under the Board and submitted to the Board for confirmation. Remunerations of Directors, Supervisors and Senior Management are paid on an annual basis and linked to the Company's operating performance. The remuneration will be resolved and distributed by the Remuneration and Appraisal Committee under the Board after submission to the Board for confirmation, with reference to the audited results at the end of the year. The allowance level for independent Directors will be formulated by the Board and approved by the shareholders' general meeting of the Company.

Basis for determination of remunerations of directors, supervisors and senior management

In accordance with the principle of efficiency, incentives and fairness, the Company links the remunerations of Directors, Supervisors and Senior Management to the Company's operating performance with reference to the audited financial report at the end of the year. The remunerations of some of the Directors and Senior Management, who are the directors or general managers of the Company's wholly-owned or controlling subsidiaries, are also determined with reference to their annual performance appraisal target (task) book (年度績效考核目標(任務)書) signed with the Company.

Actual amount of remunerations paid to directors, supervisors and senior management

Actual amount of remunerations paid to Directors, Supervisors and Senior Management of the Company for 2017 was based on the 2017 operation management performance appraisal plan considered and approved by the Remuneration and Appraisal Committee under the Board and confirmed by the Board as well as the annual performance appraisal target (task) book (年度績效考核目標(任務)書) signed. The allowance for independent Directors was paid in accordance with the working allowance standard for independent directors approved at the shareholders' general meeting.

Total remunerations actually received by all directors, supervisors and senior management at the end of the Reporting Period

Total remunerations actually received by all directors, supervisors and senior management at the end of the Reporting Period amounted to RMB16.43 million.

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

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EMPLOYEES OF THE GROUP

### General

#### *Remuneration Policies for Employees*

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

### Training

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

# CORPORATE GOVERNANCE REPORT

## BASIC INFORMATION ON CORPORATE GOVERNANCE

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

### I. Corporate Governance

During the Reporting Period, the Company strictly followed the Company Law, Securities Law, Code of Corporate Governance for Listed Companies in China, Code of Corporate Governance and Corporate Governance Report under Appendix 14 of the Hong Kong Listing Rules and relevant laws and regulations promulgated by the CSRC, the Shanghai Stock Exchange and the Hong Kong Stock Exchange as well as the requirements under the Articles of Association of the Company. The corporate governance structure was constantly optimized to enhance company operation. Currently, the Company has formed a governance mechanism with clear authorities and responsibilities and checks and balances as well as an effective internal control system in compliance with the requirements of listed companies, and are operated strictly in accordance with the legislation.

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

- 1. Shareholders and General Meeting:* The Shareholders of the Company shall have the legal rights stipulated in the law and regulation and the Articles of Association; in accordance with the relevant stipulations and requirements under the listing rules of the Shanghai Stock Exchange and the Articles of Association, the Company held and convened general meetings and treated all shareholders equally to ensure they, particularly minority shareholders, enjoy equal status and rights and assume corresponding obligations. The Company also hired practising solicitors to attend general meeting to confirm and witness the convening procedures, resolutions and the identity of attendants, so as to ensure the resolutions were lawful and valid. During the Reporting Period, one annual general meeting and one extraordinary general meeting, which were convened in compliance with the relevant requirements under the Company Law and the Articles of Association, were held by the Company.
- 2. Relations between the Controlling Shareholders and the Company:* The Company has a comprehensive and independent business and self-operation capability. The controlling shareholders of the Company has highly regulated themselves and exercised their rights as investors at the general meeting, and has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting. The Company is independent in respect of staff, assets, finance, organization and business. The Board, supervisory committee and internal organization are operated independently.

## CORPORATE GOVERNANCE REPORT

3. *Directors and the Board of Directors:* The Board of the Company consists of 13 directors; five of them are independent non-executive directors. Each director attends Board meeting and general meeting in a conscientious and responsible manner and earnestly performs his/her duties for the interests of the Company and all shareholders so as to facilitate standardized operation and rational decision-making. There are audit committee, nomination committee and remuneration and appraisal committee under the Board; each professional committee has clearly defined roles and duties. Each director fulfills his/her obligations with diligence and provides strong support for the rational decision of the Company. During the Reporting Period, 7 board meetings, which were convened in compliance with the relevant requirements under the Company Law and the Articles of Association, were held by the Company.
4. *Supervisors and the Supervisory Committee:* The supervisory committee of the Company consisted of three supervisors; one of them is employee supervisor who is elected at the meeting of representatives of employees of the Company. The members of the Supervisory Committee earnestly performed their duties with the spirit of being responsible to all shareholders, supervised the legality of the Company's financial position and performance of directors and senior management. During the Reporting Period, 6 supervisory committee meetings, which were convened in compliance with the relevant requirements under the Company Law and the Articles of Association, were held by the Company.
5. *Information Disclosure and Transparency:* In accordance with the requirements of the "Administrative Measures for the Disclosure of Information of Listed Companies" and "The Management System for Information Disclosure", the secretary of the Board and the Board office of the Company are responsible for the disclosure of information and management of investor relationship. The Company strictly complies with the requirements of the law and regulations to fulfill the responsibilities of disclosure in a truthful, precise, complete and timely manner.
6. *Investor Relationship and Stakeholders:* The Company emphasized the maintenance of the investor relationship. Through investor hotlines, E-Interaction of the Shanghai Stock Exchange, it maintains communication with investors, warmly receives visits and onsite investigation by personal investors and institutional investors. After H Share issuance, the Company's website was modified to provide simplified Chinese, traditional Chinese and English versions so that more investors can have deeper understanding of the Company's operation and development. The Company gave full respects to the shareholders, customers, staff and other stakeholders and protected their legitimate rights and interests from the perspective of system building and in each link of business operation, ensured the development of the Company in a sustainable, harmonious, healthy and standard way, in order to achieve all-win results for the Company and all stakeholders, thus maximizing the Company's profits and social benefits.

# CORPORATE GOVERNANCE REPORT

7. *Establishment of the Company's Governance System:* According to the spirit of the "Guidance for the Article of Listed Company (Revised in 2014)" (CSRC Announcement [2014] No.47) issued by China Securities Regulatory Commission, during the Reporting Period, due to the issuance and listing of our H shares, the Company exercised the over-allotment option, thus there was changes in the Company's share capital. In addition, as the expiry of the ninth session of the Board, the Company has made corresponding adjustment on the composition of the Board, taking into account the structure, size, composition and diversity of the Board. Therefore, the Board proposes to consider and approve the "Resolution on the Amendments on the Articles of Association and Change on Industrial and Commercial Registration" at the general meeting and amend the relevant terms of the "Articles of Association".
8. *Registration and Management of People in Possession of Inside Information:* During the Reporting Period, the Company strictly implemented the relevant requirements of the "Administrative Measures for the Disclosure of Information of Listed Companies" and "System for the Registration and Management of People in Possession of Inside Information" for registration and management of people in possession and use of inside information to ensure the disclosure of information is lawful and fair. During the Reporting Period, no people possessing inside information traded the Company's shares in violation of the laws and regulations.

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

## COMPLIANCE WITH CG CODE

The Company has adopted the code provisions set out in Appendix 14 to the Hong Kong Listing Rules upon Listing. The Board is of the view that the Company has complied with all the code provisions as set out in the CG Code during the Reporting Period.

## SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND EMPLOYEES

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

Specific enquiries have been made to all the Directors and the Supervisors and the Directors and the Supervisors have confirmed that they have complied with the Model Code during the Reporting Period.

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

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### Composition of the Board

Up to the Latest Practicable Date, the Board consisted of thirteen (13) members, including five (5) executive Directors, three (3) non-executive Director, and five (5) independent non-executive Directors.

### Executive Directors

Mr. Yang Guoping (楊國平) (*Chairman of the Board*)

Mr. Liang Jiawei (梁嘉璋) (*Chief Executive Officer*)

Ms. Yu Min (俞敏)

Mr. Zhuang Jianhao (莊建浩)

Mr. Yang Weibiao (楊衛標)

### Non-executive Directors

Mr. Chan Wing Kin (陳永堅)

Mr. Li Songhua (李松華)

Mr. Cheung Yip Sang (張葉生)

### Independent non-executive Directors

Mr. Wang Kaiguo (王開國)

Mr. Yao Chao Fai Andrew (姚祖輝)

Mr. Chow Siu Lui (鄒小磊)

Mr. Wang Hongxiang (王鴻祥)

Mr. Liu Zhengdong (劉正東)

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

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



# CORPORATE GOVERNANCE REPORT

## BOARD MEETINGS

During the Report Period, the Board has convened seven (7) Board meetings. The following table sets forth the attendance rate of the Directors at the meetings of the Board and general meetings of the Company during the Reporting Period:

### II. Performance of Duties by Directors

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

Name of Director	Independent Director or not	Required attendance for the year (times)	Attendance at Board meetings				Absence (times)	Any failure in attending person for two consecutive meetings	Attendance at general meetings (times)
			Attendance in person	Attendance by way of communication (times)	Attendance by proxy (times)				
Yang Guoping (楊國平)	No	7	3	4	0	0	No	2	
Liang Jiawei (梁嘉瑋)	No	7	3	4	0	0	No	2	
Yu Min (俞敏)	No	7	3	4	0	0	No	2	
Zhuang Jianhao (莊建浩)	No	7	3	4	0	0	No	1	
Yang Weibiao (楊衛標)	No	4	2	2	0	0	No	0	
Li Songhua (李松華)	Yes	4	2	2	0	0	No	0	
Chan Wing Kin (陳永堅)	Yes	7	2	4	1	0	No	0	
Cheung Yip Sang (張葉生)	No	4	1	2	1	0	No	0	
Wang Kaiguo (王開國)	No	4	2	2	0	0	No	0	
Yao Chao Fai Andrew (姚祖輝)	No	7	3	4	0	0	No	0	
Chow Siu Lui (鄧小磊)	Yes	7	3	4	0	0	No	0	
Wang Hongxiang (王鴻祥)	Yes	4	2	2	0	0	No	0	
Liu Zhengdong (劉正東)	Yes	4	2	2	0	0	No	0	
Zhong Jinxing (鐘晉倅)	No	3	1	2	0	0	No	1	
Yang Jicai (楊繼才)	No	3	1	2	0	0	No	1	
Cai Jianmin (蔡建民)	Yes	3	1	2	0	0	No	0	
Yan Xuehai (顏學海)	Yes	3	0	0	3	0	Yes	0	
Number of Board meetings held in the year								7	
Including: Number of on-site meetings								3	
Number of meetings held by way of communication								4	
Number of meetings held on-site with attendance by way of communication								0	

# CORPORATE GOVERNANCE REPORT

## Chairman and Chief Executive Officer

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

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

## Independent Non-Executive Directors

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

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

## Re-election of Directors

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

## Responsibilities, Accountabilities and Contributions of the Board and the Management

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

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

# CORPORATE GOVERNANCE REPORT

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

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

## Continuous Professional Development of Directors

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

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

According to the records maintained by the Company, as of December 31, 2017, all Directors received training in compliance with the code provisions relating to continuous professional development under the CG Code.

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

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

# CORPORATE GOVERNANCE REPORT

During the year ended December 31, 2017, the Directors participated in the following training:

<b>Directors</b>	<b>Types of Training</b>
<b>Executive Directors</b>	
Yang Guoping (楊國平)	B, C
Liang Jiawei (梁嘉璋)	B, C
Yu Min (俞敏)	B, C
Zhuang Jianhao (莊建浩)	B, C
Yang Weibiao (楊衛標)	A, C
<b>Non-executive Directors</b>	
Li Songhua (李松華)	A, C
Cheung Yip Sang (張葉生)	B, C
Chan Wing Kin (陳永堅)	B, C
<b>Independent Non-executive Directors</b>	
Yao Chao Fai Andrew (姚祖輝)	B, C
Chow Siu Lui (鄒小磊)	B, C
Wang Kaiguo (王開國)	A, B
Wang Hongxiang (王鴻祥)	A, B
Liu Zhengdong (劉正東)	A, B

A: attending seminars and/or conferences and/or forums

B: attending in-house training relating to the ongoing compliance obligations, corporate governance and other related topics

C: reading newspapers, publications and updates relating to the economy, general business, automotive component manufacturing industry or Directors' duties and responsibilities, etc.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

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

### Audit Committee

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

#### Independent non-executive Directors

Mr. Wang Hongxiang (王鴻祥) (*Chairman*)

Mr. Yao Cho Fai Andrew (姚祖輝)

Mr. Chow Siu Lui (鄒小磊)

The Audit Committee is responsible for, among other things:

- Providing advice to the board on appointment, reappointment and dismissal of external accountants, reviewing the remuneration and terms of employment of external accountants and handling any questions relating to the resignation or dismissal of the accountants.
- Reviewing and checking whether the accounting firm is independent and objective and the audit procedure is valid, and assessing the impact of non-audit services provided by external accounting firms on their independence, and discussing and communicating on the audit scope, audit plan, audit method and major issues found in audit.
- Reviewing the Company's annual internal audit work plan, supervising the formulation and implementation of internal audit system; reviewing the internal audit work report, evaluating the results of internal audit work, and supervising the rectification of major problems; guiding the effective operation of internal audit department.
- Auditing the company's financial information and its disclosure, and commenting on the authenticity, completeness and accuracy of the financial reports; focusing on the major accounting and audit issues of the financial reports of listed companies, and paying special attention to the possibility of fraud, fraud and material misstatement related to financial reporting; supervising the rectification of financial reporting problems.
- Supervising and reviewing the integrity, rationality, appropriateness and effectiveness of the internal control system and system of the company and its controlling subsidiaries; evaluating the company's existing or potential risks and proposing suggestions to improve the company's risk management.

# CORPORATE GOVERNANCE REPORT

- Confirming the related parties of the company, reporting to the board of directors and the board of supervisors, and reporting to the relevant staff of the company the related party as confirmed.
- other duties authorized by the board of directors.

During the Reporting Period, the Audit Committee held four (4) meetings to review annual, interim and quarterly financial results and reports and significant issues on the financial reporting and connected transactions.

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

Number of Director	Number of meetings	Attendance in person	Attendance by proxy	Absence
Mr. Wang Hongxiang (王鴻祥) ( <i>Chairman</i> )	4	4	0	0
Mr. Yao Cho Fai Andrew (姚祖輝)	4	4	0	0
Mr. Chow Siu Lui (鄒小磊)	4	4	0	0

## Remuneration and Appraisal Committee

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

### Independent non-executive Directors

Mr. Wang Kaiguo (王開國) (*Chairman*)

Mr. Yao Cho Fai Andrew (姚祖輝)

### Executive Director

Mr. Yang Guoping (楊國平)

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

- Research directors, managers and other senior management staff assessment criteria, conduct assessment and establish a formal and transparent procedure to formulate compensation policies and make recommendations.
- Working on directors, managers and other senior management staff's assessment criteria, conducting assessment and establishing formal and transparent procedures to formulate compensation policies and giving recommendations.
- Studying and reviewing the remuneration policies and programs of directors, managers and other senior managers and supervising the implementation of the remuneration system.
- Reviewing and approving executive compensation recommendations based on the Company's policies and objectives set out by the board.

# CORPORATE GOVERNANCE REPORT

- Considering the remunerations paid by similar companies, and the relevant time of work and duties.
- Assessing and approving compensations that shall be paid to executive directors and other members of senior management when necessary, to comply with the contract clauses; in case no agreement with the clauses is made, the compensation shall be fair and reasonable, not too much.
- Ensuring that no director or any of their contacts is involved in determining his or her remuneration.
- other duties authorized by the board.

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

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

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

Number of Director	Number of meetings	Attendance in person	Attendance by proxy	Absence
Mr. Wang Kaiguo (王開國) ( <i>Chairman</i> )	1	1	0	0
Mr. Yao Cho Fai Andrew (姚祖輝)	1	1	0	0
Mr. Yang Guoping (楊國平)	1	1	0	0

Details of remuneration of all Directors, Supervisors and certain members of the senior management for the year ended December 31, 2017 are set out in note 15 to the financial statements in this annual report.

## Nomination Committee

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

### Independent non-executive Directors

Mr. Yao Cho Fai Andrew (姚祖輝) (*Chairman*)  
Mr. Liu Zhengdong (劉正東)

### Executive Director

Mr. Yang Guoping (楊國平)

# CORPORATE GOVERNANCE REPORT

The Nomination Committee is responsible for, among other things:

- Studying the selection criteria and procedures of directors, managers and other senior managers appointed by the board of directors and making recommendations.
- Searching for qualified candidates extensively.
- Reviewing the candidates and making recommendations.
- Making recommendations to the board on the appointment or reappointment of directors and the succession plan of directors (especially the chairman and manager).
- Assessing the independence of independent non-executive directors.
- Checking, at least annually, the structure, number and composition of the board of directors (including skills, knowledge and experience aspects), and making recommendations on the changes made to the board of directors in response to the company's strategy.
- other duties authorized by the board.

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

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



# CORPORATE GOVERNANCE REPORT

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

<b>Gender</b>	<b>Number of Directors</b>
Male	12
Female	1

  

<b>Age</b>	<b>Number of Directors</b>
Below 50	3
Between 50 and 59	7
Between 60 and 69	3
70 and above	0

  

<b>Length of service as Director</b>	<b>Number of Directors</b>
Less than 3 years	5
Between 3 to 5 years	3
5 years and more	5

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

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

<b>Name of Director</b>	<b>Number of meetings</b>	<b>Attendance in person</b>	<b>Attendance by proxy</b>	<b>Absence</b>
Mr. Yao Cho Fai Andrew (姚祖輝) ( <i>Chairman</i> )	1	1	0	0
Mr. Yang Guoping (楊國平)	1	1	0	0
Mr. Liu Zhengdong (劉正東)	1	1	0	0

## Corporate Governance Functions

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

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

# CORPORATE GOVERNANCE REPORT

## INFORMATION ON THE GENERAL MEETINGS

### III. General Meeting

General meeting	Date of convention	Directory to designated site of publication of the resolution	Date of disclosure of the publication of resolution
2016 annual general meeting	May 25, 2017	The Shanghai Stock Exchange <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	May 26, 2017
2017 first extraordinary general meeting	July 14, 2017	The Shanghai Stock Exchange <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	July 15, 2017

#### Information on the general meeting

A total of 42 shareholders and proxies attended the 2016 annual general meeting, with a total of 690,751,172 shares, accounting for 23.3690% of the total number of shares of the Company. The meeting approved resolutions including "The Work Report of the Board of Directors for the Year 2016", "The Work Report of the Supervisory Committee for the Year 2016", "The Work Report of the General Manager for the Year 2016", "The Final Financial Report for the Year 2016 and the Financial Budget Report for the Year 2017", "The Profit Distribution Plan for the Year 2016", "Resolution on Ordinary Related Party Transactions of the Company for the Year 2017", "Resolutions on the Application of Credit Facilities of the Company and the Provision of Guarantees for External Financing of Controlling Subsidiary by the Company", "Election of Executive Directors of the Tenth session of the Board of the Company", "Election of Non-executive Directors of the Tenth session of the Board of the Company", "Election of Independent Non-executive Directors of the Tenth session of the Board of the Company", "Election of members of the Tenth session of the Supervisory Committee of the Company", "Resolution on the Reappointment of the Domestic Audit Firm and Internal Control Audit Firm for the Company for the Year 2017", "Resolution on the Appointment of the Overseas Audit Firm for the Company for the Year 2017" and "Resolution on the Amendments on the Articles of Association and Change on Industrial and Commercial Registration". The general meeting was witnessed by lawyers of Jin Mao Partners in person and documents with legal opinions were delivered. The legal opinions were that the meeting was lawful and valid.

On July 14, 2017, the Company convened the 2017 first extraordinary general meeting. A total of 36 shareholders and proxies attended the 2017 first extraordinary general meeting, with a total of 695,018,549 shares, accounting for 23.54% of the total number of shares of the Company. Resolutions including "Proposal on the Non-public Issue of the Convertible Corporate Bonds" and the "Proposal on the Issuance of Onshore and Offshore Debt Financing Instruments" were approved. The general meeting was witnessed by lawyers of Jin Mao Partners in person and documents with legal opinions were delivered. The legal opinions were that the meeting was lawful and valid.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDER RIGHTS

### Shareholders' Requests to Convene an Extraordinary General Meeting

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

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

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

### Proposals at the General Meetings

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

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

## Putting Forward Enquiries to the Board

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

Secretary to the Board's office of the Company

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

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

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended December 31, 2017.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 126 to 131 of this annual report.

## AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company (including BDO and other PRC auditors), in respect of audit services for the annual report for the year ended December 31, 2017 amounted to HKD1.2 million and RMB1.6 million, of which HKD1.2 million is for audit services rendered by BDO.

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

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems. The Company has established an internal audit department which is responsible for internal audit function and independent review on the adequacy and effectiveness of risk management and internal control system. The internal audit department examines major matters relating to accounting practices and material controls and provide the audit committee with its findings and suggestions for improvement.

The Board, through the Audit Committee, reviews the risk management and internal control system on an ongoing basis and reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries for the year ended December 31, 2017 and considered the risk management and internal control system to be effective and adequate.

## JOINT COMPANIES SECRETARIES

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

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

# CORPORATE GOVERNANCE REPORT

## ARTICLES OF ASSOCIATION

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

### IV. Risk Discovered by the Board of Supervisors

The Board has no objection to the supervision during the Reporting Period.

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

Not applicable

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

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

### VII. Whether to disclose internal self evaluation report

Please refer to the SSE's website ([www.sse.com.cn](http://www.sse.com.cn)) dated March 30, 2018 for the detailed Internal Control Evaluation Report of the Company for 2017.

### VIII. Relevant information on internal control audit report

BDO China Shu Lun Pan Certified Public Accountants LLP, the internal control auditor of the Company issued a standard unqualified internal control audit report for the Company. Please refer to relevant announcement on the SSE's website ([www.sse.com.cn](http://www.sse.com.cn)) dated March 30, 2018 for details of the internal control audit report.

# INDEPENDENT AUDITOR'S REPORT



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

(上海大眾公用事業(集團)股份有限公司)

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

### OPINION

We have audited the consolidated financial statements of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as "the Group") set out on pages 132 to 246, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS OF OPINION

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

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for 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.

BDO Limited  
香港立信德豪會計師事務所有限公司

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# INDEPENDENT AUDITOR'S REPORT

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

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

As at 31 December 2017, the Company holds a 50% equity interests in three subsidiaries, namely Shanghai Dazhong Gas (Group) Co., Ltd. ("Shanghai Dazhong Gas"), Nantong Dazhong Gas Co., Ltd. ("Nantong Dazhong Gas") and Shanghai Minhang Dazhong Micro-Credit Co., Ltd. ("Minhang Dazhong Micro-Credit") (together as "50% Subsidiaries"). The directors of the Company considered that the Company has the practical ability to direct the relevant activities of 50% Subsidiaries, which demonstrates the Group has power over 50% Subsidiaries, exposure to variable returns from 50% Subsidiaries and ability to use its power to affect its variable returns throughout the year based on all relevant facts and circumstances and therefore the Company is able to consolidate these entities in the consolidated financial statements. The determination of the Company has control over 50% Subsidiaries is a key audit matter due to the significant judgment involved and the potential financial impact is significant to the presentation of consolidated financial statements.

*Our response:*

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

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

## Significant influence over investees

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

As at 31 December 2017, the Company had investments in three entities, namely Shenzhen Capital Group Co., Ltd. ("Shenzhen Capital Group"), Shanghai Hangxin Investment Management Co., Ltd. ("Shanghai Hangxin") and Suchuang Gas Co., Ltd. ("Suchuang Gas"), in which the Group held 13.93%, 16.13% and 19.75% of their equity interests respectively. The directors of the Company considered that the Group has significant influence over these three investments since the Group actively participates in these three entities' operating and financial policies, and thus investments in these three entities are accounted for as associates of the Group using the equity method. The determination that the Company has significant influence over these three entities is a key audit matter due to the significant judgment involved and the potential financial impact is significant to the presentation of consolidated financial statements.



# INDEPENDENT AUDITOR'S REPORT

*Our response:*

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

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

## **Lease receivables and loan receivables impairment assessment**

Refer to notes 5(b), 29 and 33 to the consolidated financial statements and the accounting policies on note 4(j)(ii).

As at 31 December 2017, the Group's lease receivables and loan receivables gross amounting to approximately RMB1,510,048,000 and RMB160,830,000 respectively. The provisions for impairment losses were approximately RMB14,953,000 and RMB23,323,000 respectively.

The management of the Group evaluates the provision for impairment of loans receivables and lease receivables in both individual evaluation method and portfolio combinations method. The assessment on impairment loss for each individual item relies on the analysis and judgment by the management. The key factors includes the debtors' and guarantors' financial and operating conditions, any other pledged assets, the liquidity of the collaterals of the leases and loans and the cash flow forecast of the debtors' business with reasonable discount rates. The assessment on impairment losses on portfolio of items mainly depends on the external macro-economic conditions and internal credit risk management. The impairment provisions determined by the Group had also included the review on historical loss experience and other adjusting factors.

The management involves complex and significant judgments in determining the provision on impairment loss on loan receivables and lease receivables. Therefore, we believe that the provision of loan receivables and lease receivables are the key audit matters.

# INDEPENDENT AUDITOR'S REPORT

*Our response:*

Our audit procedures in relation to impairment assessment on loan receivables and lease receivables included:

- understood the management's internal control related to the evaluation of recoverability on loan receivables and lease receivables including credit approval and impairment review process;
- checked to loan and lease agreements and subsequent repayments of the receivables;
- identified impairment losses indicators on receivables and reviewed the debtors' payment records and overdue status;
- checked to the accuracy of records and evaluated the reasonableness of management's judgment on collateral held and credit worthiness of the debtors; and
- assessed the methodologies used and appropriateness of the key assumptions adopted for valuation of collateral.

## OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

# INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism 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.

## INDEPENDENT AUDITOR'S REPORT

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

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

### **BDO Limited**

*Certified Public Accountants*

Lee Ka Leung, Daniel

Practising Certificate Number P01220

Hong Kong, 29 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	7	4,741,950	4,568,396
Cost of sales		(3,954,023)	(3,828,280)
Gross profit		787,927	740,116
Other income and gains	8	37,776	57,110
Selling and distribution costs		(186,555)	(167,749)
Administrative expenses		(535,329)	(376,951)
Investment income and gains, net	11	368,033	111,126
Loss on disposal of subsidiaries	9	–	(4,529)
Finance costs	12	(262,553)	(180,226)
Share of results of associates	26	418,045	501,613
Profit before income tax expense	14	627,344	680,510
Income tax expense	17	(71,841)	(46,700)
<b>Profit for the year</b>		<b>555,503</b>	<b>633,810</b>
<b>Other comprehensive income, net of tax:</b>			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		(108,315)	(273,009)
Change in fair value of available-for-sale financial assets		(2,091)	(62,941)
Recycle of change in fair value of available-for-sale financial assets to profit or loss		(186,700)	(1,163)
Exchange differences on translating foreign operations		(1,543)	(728)
Items that will not be reclassified to profit or loss:			
Re-measurement gains on defined benefit obligations		3,766	558
<b>Other comprehensive income for the year, net of tax</b>		<b>(294,883)</b>	<b>(337,283)</b>
<b>Total comprehensive income for the year</b>		<b>260,620</b>	<b>296,527</b>
<b>Profit for the year attributable to:</b>			
Owners of the Company		474,133	547,642
Non-controlling interests		81,370	86,168
		<b>555,503</b>	<b>633,810</b>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		181,562	195,672
Non-controlling interests		79,058	100,855
		<b>260,620</b>	<b>296,527</b>
<b>Earnings per share</b>			
Basic and diluted	19	<b>RMB0.16</b>	<b>RMB0.22</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	20	4,921,963	4,590,460
Investment properties	21	62,751	64,948
Payments for leasehold land held for own use under operating leases	22	71,084	69,421
Goodwill	23	1,312	1,312
Intangible assets	24	584,887	361,496
Investments in associates	26	5,501,551	4,684,486
Available-for-sale financial assets	27	893,244	791,989
Trade receivables	28	149,445	463,337
Lease receivables	29	729,022	615,247
Amount due from grantor	30	581,670	618,369
Long-term prepayment		1,865	–
Deferred tax assets	31	32,406	20,495
<b>Total non-current assets</b>		<b>13,531,200</b>	<b>12,281,560</b>
<b>Current assets</b>			
Inventories	32	26,735	27,909
Amount due from an associate	26	318,996	–
Trade and bills receivables	28	306,649	335,940
Lease receivables	29	620,231	375,685
Loan receivables	33	137,507	224,885
Prepayments and other receivables	34	93,826	77,227
Amount due from grantor	30	36,698	34,847
Financial assets at fair value through profit or loss	35	21,178	74,103
Available-for-sale financial assets	27	175,000	160,000
Pledged deposits	36	219,473	159,000
Cash and cash equivalents	36	4,912,508	3,258,733
<b>Total current assets</b>		<b>6,868,801</b>	<b>4,728,329</b>
<b>Current liabilities</b>			
Borrowings	37	3,008,013	1,944,671
Corporate bonds and short-term bonds payable	38	2,609,653	302,417
Trade payables	39	1,263,609	1,289,529
Other payables	40	836,597	997,366
Deferred income	41	212,693	210,633
Amounts due to customers for contract work	42	641,345	517,811
Employee defined benefits	43	1,977	2,130
Current tax liabilities		39,279	27,685
<b>Total current liabilities</b>		<b>8,613,166</b>	<b>5,292,242</b>
<b>Net current liabilities</b>		<b>(1,744,365)</b>	<b>(563,913)</b>
<b>Total assets less current liabilities</b>		<b>11,786,835</b>	<b>11,717,647</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
<b>Non-current liabilities</b>			
Borrowings	37	827,882	378,155
Corporate bonds and medium-term bonds payable	38	1,092,799	1,595,052
Other payables	40	343,148	275,573
Deferred income	41	1,117,635	1,116,838
Employee defined benefits	43	34,738	39,087
Provision for restoration	44	32,560	19,295
Deferred tax liabilities	31	34,792	99,225
Total non-current liabilities		3,483,554	3,523,225
<b>Net assets</b>			
<b>Equity</b>			
Share capital	45	2,952,435	2,902,705
Reserves		4,232,142	4,160,340
<b>Non-controlling interests</b>			
		7,184,577	7,063,045
		1,118,704	1,131,377
<b>Total equity</b>		<b>8,303,281</b>	<b>8,194,422</b>

On behalf of the directors

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Director

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Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Equity attributable to owners of the Company							Total	Non-controlling interests	Total
	Share capital	Capital reserve	Statutory reserve	Exchange reserve	Investment revaluation reserve	Other reserve	Retained earnings			
	(note 45)	(note 46(a))	(note 46(b))	(note 46(c))	(note 46(d))	(note 46(e))	(note 46(f))			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
At 1 January 2016	2,467,305	169,240	669,878	5,942	293,393	1,451,247	661,059	5,718,064	1,061,122	6,779,186
Profit for the year	-	-	-	-	-	-	547,642	547,642	86,168	633,810
Other comprehensive income for the year:										
Share of other comprehensive income of associates	-	-	-	-	-	(273,009)	-	(273,009)	-	(273,009)
Change in fair value of available-for-sale financial assets	-	-	-	-	(77,349)	-	-	(77,349)	14,408	(62,941)
Recycle of change in fair value of available-for-sale financial assets to profit or loss	-	-	-	-	(1,163)	-	-	(1,163)	-	(1,163)
Exchange differences on translating foreign operations	-	-	-	(728)	-	-	-	(728)	-	(728)
Re-measurement gains on defined benefit obligations (note 43)	-	-	-	-	-	279	-	279	279	558
Total comprehensive income for the year	-	-	-	(728)	(78,512)	(272,730)	547,642	195,672	100,855	296,527
Issue of ordinary H shares (note 45(ii))	435,400	882,191	-	-	-	-	-	1,317,591	-	1,317,591
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	9,544	9,544
2015 final dividend paid (note 18)	-	-	-	-	-	-	(148,038)	(148,038)	-	(148,038)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(29,118)	(29,118)
Transfer of statutory reserve	-	-	63,495	-	-	-	(63,495)	-	-	-
Acquisition of equity interests of non-controlling interests (note 25)	-	(19,504)	-	-	-	-	-	(19,504)	(11,026)	(30,530)
Others	-	(740)	-	-	-	-	-	(740)	-	(740)
At 31 December 2016 and 1 January 2017	2,902,705	1,031,187	733,373	5,214	214,881	1,178,517	997,168	7,063,045	1,131,377	8,194,422



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Equity attributable to owners of the Company							Total	Non-controlling interests	Total
	Share capital (note 45) RMB'000	Capital reserve (note 46(a)) RMB'000	Statutory reserve (note 46(b)) RMB'000	Exchange reserve (note 46(c)) RMB'000	Investment revaluation reserve (note 46(d)) RMB'000	Other reserve (note 46(e)) RMB'000	Retained earnings (note 46(f)) RMB'000			
At 31 December 2016 and 1 January 2017	2,902,705	1,031,187	733,373	5,214	214,881	1,178,517	997,168	7,063,045	1,131,377	8,194,422
Profit for the year	-	-	-	-	-	-	474,133	474,133	81,370	555,503
Other comprehensive income for the year:										
Share of other comprehensive income of associates	-	-	-	-	-	(108,315)	-	(108,315)	-	(108,315)
Change in fair value of available- for-sale financial assets	-	-	-	-	2,104	-	-	2,104	(4,195)	(2,091)
Recycle of change in fair value of available-for-sale financial assets to profit or loss	-	-	-	-	(186,700)	-	-	(186,700)	-	(186,700)
Exchange differences on translating foreign operations	-	-	-	(1,543)	-	-	-	(1,543)	-	(1,543)
Re-measurement gain on defined benefit obligations (note 43)	-	-	-	-	-	1,883	-	1,883	1,883	3,766
Total comprehensive income for the year	-	-	-	(1,543)	(184,596)	(106,432)	474,133	181,562	79,058	260,620
Issue of ordinary H shares (note 45(ii))	49,730	102,793	-	-	-	-	-	152,523	-	152,523
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	50,000	50,000
2016 final dividend paid (note 18)	-	-	-	-	-	-	(177,146)	(177,146)	-	(177,146)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(53,751)	(53,751)
Transfer of other reserves	-	-	-	-	-	148	(148)	-	-	-
Transfer of statutory reserves	-	-	66,895	-	-	-	(66,895)	-	-	-
Acquisition of equity interests of non-controlling interests (note 25)	-	4,035	-	-	-	-	-	4,035	(87,980)	(83,945)
Others	-	-	-	-	-	(39,442)	-	(39,442)	-	(39,442)
At 31 December 2017	2,952,435	1,138,015	800,268	3,671	30,285	1,032,791	1,227,112	7,184,577	1,118,704	8,303,281

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
<b>Profit before income tax expense</b>	<b>627,344</b>	680,510
Adjustments for:		
Finance costs	262,553	180,226
Share of results of associates	(418,045)	(501,613)
Amortisation on payments for leasehold land held for own use under operating leases	2,083	2,084
Amortisation on intangible assets	25,405	22,834
Depreciation on property, plant and equipment	339,981	328,898
Depreciation on investment properties	2,197	2,199
Impairment loss on trade receivables	1,112	603
Impairment loss on loan receivables	15,408	526
Impairment loss on lease receivables	14,953	–
Impairment loss/(reversal of) on prepayments and other receivables	2,118	(484)
Impairment loss on available-for-sale financial assets	2,368	–
Write-off of inventories	563	–
Loss on disposal of property, plant and equipment	11,826	13,358
Loss on disposal of subsidiaries	–	4,529
Loss on disposal of financial assets at fair value through profit or loss – held for trading	42,002	124,835
Gain on disposal of available-for-sale financial assets	(251,253)	(13,643)
Gain on disposal of government bonds	(15,138)	(2,450)
Changes in fair value of financial assets at fair value through profit or loss	(17,984)	1,621
Dividend income	(125,660)	(213,610)
Other financial income	–	(7,879)
Exchange loss/(gain), net	109,609	(11,910)
Financial income from wastewater treatment income	(31,660)	(32,793)
Financial income from public infrastructure projects	(36,001)	(40,716)
Bank interest income	(21,316)	(14,620)
Other interest income	–	(4,119)
<b>Operating profit before working capital changes</b>	<b>542,465</b>	518,386
Decrease/(increase) in inventories	611	(5,227)
Decrease in trade and bills receivables	342,071	71,885
(Increase)/decrease in prepayments and other receivables	(20,582)	117,908
(Decrease)/increase in trade and bills payables	(25,920)	180,750
Decrease in other payables	(408,104)	(392,319)
Increase in deferred income	2,857	45,989
Increase in amounts due to customers for contract work	123,534	81,198
<b>Cash generated from operations</b>	<b>556,932</b>	618,570
Bank interest income	21,316	14,620
Other interest income	–	4,119
Income taxes paid	(71,207)	(42,601)
<b>Net cash flows generated from operating activities</b>	<b>507,041</b>	594,708

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
<b>Cash flows from investing activities</b>		
Proceeds from disposals of investments and financial assets	76,514	719,784
New lease receivables	(899,300)	(933,846)
Receipt of lease receivable	526,026	695,843
New loan receivables	(95,300)	(197,300)
Receipt of loan receivables	167,270	172,700
Increase in pledged deposits	(60,473)	(155,603)
Proceeds from return on investment and financial assets	450,000	175,000
Proceeds from disposals of property, plant and equipment, intangible assets and long-term investments	972	11,269
Proceeds from disposals of subsidiaries, net of cash and cash equivalents disposed of	–	6,976
Proceeds from repayment of amount due from grantor	34,848	33,090
Receipt/(payment) for wastewater treatment tender	196,276	–
Acquisition of property, plant and equipment and payments for leasehold land held for own use under operating leases	(846,391)	(514,098)
(Payment to)/receipt of repayment from an associate	(318,996)	60,335
Additions to intangible assets	(90,433)	(31,353)
Acquisition of a subsidiary, net of cash acquired	2,945	42,178
Payments for acquisition of new investments	(629,603)	(704,802)
<b>Net cash flows used in investing activities</b>	<b>(1,485,645)</b>	<b>(619,827)</b>
<b>Cash flows from financing activities</b>		
New bank borrowings	3,446,401	3,623,441
Repayment of bank borrowings	(1,933,332)	(3,226,900)
Proceeds from issue of short-term bonds payable	1,500,000	300,000
Proceeds from issue of medium-term bonds payable	1,100,000	–
Repayment of short-term bonds payable	(800,000)	–
Proceeds from issue of ordinary shares	152,523	1,391,871
Payments of interest expenses	(283,354)	(96,678)
Payments of final dividends	(177,146)	(148,038)
Dividends paid to non-controlling interests	(53,751)	(29,118)
Capital injection from non-controlling interests	50,000	9,544
Acquisition of equity interests of non-controlling interests	(87,980)	(30,530)
Payment for other financing activities, including share issue cost and payment of state-owned shares	(167,562)	(77,480)
<b>Net cash flows generated from financing activities</b>	<b>2,745,799</b>	<b>1,716,112</b>
Net increase in cash and cash equivalents	1,767,195	1,690,993
Exchange differences on translating cash flows of foreign operations	(113,420)	18,085
Cash and cash equivalents at beginning of year	3,258,733	1,549,655
Cash and cash equivalents at end of year	<b>4,912,508</b>	<b>3,258,733</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 1. GENERAL INFORMATION

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

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”) on 5 December 2016.

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

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

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

### (a) Adoption of new/revised IFRSs – effective 1 January 2017

Annual improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 12, Disclosure of Interests in Other Entities
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

#### *Amendments to IAS 7 – Disclosure Initiative*

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the note 53 of the notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (a) Adoption of new/revised IFRSs – effective 1 January 2017 (Continued)

*Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

*Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 12, Disclosure of Interests in Other Entities*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of IFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity’s interests in other entities classified as held for sale or discontinued operations in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to IFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with IFRS 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

Annual Improvements to IFRSs 2014 to 2016 Cycle	Amendments to IFRS 1, First-time adoption of Hong Kong Financial Reporting Standards <sup>1</sup>
Annual Improvements to IFRSs 2014 to 2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures <sup>1</sup>
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions <sup>1</sup>
IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15) <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC – Int 23	Uncertainty over income tax treatments <sup>2</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
IFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contract <sup>3</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

*Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

*Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IAS 28, Investments in Associates and Joint Ventures*

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation’s permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

*Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions*

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

*IFRS 9 – Financial Instruments*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

#### *IFRS 15 – Revenue from Contracts with Customers*

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

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

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

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

The Group does not expect the adoption of IFRS 15 will have a significant impact on the Group’s financial performance and financial position. However, the presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group’s financial statements.

#### *Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)*

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

#### *Amendments to IAS 40, Investment Property – Transfers of Investment Property*

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

#### *IFRIC 22 – Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

#### *IFRIC 23 – Uncertainty over income tax treatments*

The Interpretation supports the requirements of IAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

#### *Amendments to IFRS 9 – Prepayment Features with Negative Compensation*

The amendments clarify that prepayment financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

#### *IFRS 16 – Leases*

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

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

Total operating lease commitments of the Group in respect of land and buildings and office premises as at 31 December 2017 amounted to approximately RMB11,961,000 (2016: RMB9,573,000). The directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

#### *Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

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

### (b) Basis of preparation and going concern assumption

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

The Group had net current liabilities of approximately RMB1,744,365,000 as at 31 December 2017. The Group meets its day-to-day work capital requirements through its bank borrowings. Its forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current banking facilities. The directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future, and therefore are of the view that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements. Further information on the Group’s bank borrowings is set out in note 37.

### (c) Functional and presentation currency

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Business combination and basis of consolidation

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (a) Business combination and basis of consolidation (Continued)

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

### (b) Subsidiaries

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (c) Associates

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

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

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

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

### (d) Goodwill

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (d) Goodwill (Continued)

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

### (e) Property, plant and equipment

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

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

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

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

### (f) Investment property

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

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

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

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

### (h) Leasing

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

#### *The Group as lessee*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (h) Leasing (Continued)

*The Group as lessor*

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

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

### (i) Intangible assets

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

Wastewater treatment concession rights	20-30 years
Computer software	5 years
Technical knowhow	10 years

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

### (j) Financial instruments

#### (i) *Financial assets*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (j) Financial instruments (Continued)

#### (i) Financial assets (Continued)

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (j) Financial instruments (Continued)

#### (i) Financial assets (Continued)

##### Available-for-sale financial assets (Continued)

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

#### (ii) Impairment loss on financial assets

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

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

##### For loans and receivables

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (j) Financial instruments (Continued)

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

For available-for-sale financial assets

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

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

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

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

#### (iii) Financial liabilities

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

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

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

#### (iv) Effective interest method

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (j) Financial instruments (Continued)

#### (v) Equity instruments

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

#### (vi) Financial guarantee contracts

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

#### (vii) Derecognition

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

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

### (k) Construction contracts

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (k) Construction contracts (Continued)

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

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

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

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

### (l) Inventories

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

### (m) Service concession arrangements

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (m) Service concession arrangements (Continued)

#### *The Group's rights over the infrastructure*

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

#### *Consideration received or receivable by the Group for the construction services*

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

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (m) Service concession arrangements (Continued)

#### *Construction services*

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

#### *Operating services*

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

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

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

### (n) Revenue recognition

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

- (i) Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.
- (ii) Revenue from sale of gas is recognised upon the transmission of gas to the customers, as determined based on the volume of gas transmitted and the applicable fixed tariff rates agreed with the respective customers.
- (iii) Revenue from construction contracts of gas pipeline construction is recognised by reference to the percentage of completion of the contract at the reporting date (note 4(k)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (n) Revenue recognition (Continued)

- (iv) When the Group receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the Group must then use the item of property, plant and equipment to provide the customer with ongoing access to a supply of gas, the item of property, plant and equipment is recognised in accordance with IAS 16 "Property, Plant and Equipment" and the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) is recognised in accordance with IAS 18 "Revenue". When an ongoing service is identified as part of the arrangement, the revenue is recognised as gas connection income over ten years.
- (v) Revenue from wastewater treatment is recognised when services are rendered.
- (vi) Revenue from construction contracts of wastewater treatment construction is recognised by reference to the percentage of completion of the contracts at the reporting date (note 4(k)).
- (vii) Revenue from public infrastructure projects is recognised when services are rendered.
- (viii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.
- (ix) Interest income is recognised on a time-proportion basis using the effective interest method.
- (x) Financial income from wastewater treatment, public infrastructure projects is recognised as it accrues using the effective interest method.
- (xi) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).
- (xii) Finance lease income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (o) Income taxes

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

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

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

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

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

### (p) Capitalisation of borrowing costs

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

### (q) Government grants

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (r) Impairment of non-financial assets

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

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

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

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

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

### (s) Employee benefits

#### (i) Short term employee benefits

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (s) Employee benefits (Continued)

#### (ii) Defined contribution retirement plan

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

#### (iii) Defined benefit retirement plans

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

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

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

#### (iv) Termination benefits

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (t) Foreign currencies

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

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

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

### (u) Related parties

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### (u) Related parties (Continued)

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

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

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

### (v) Provisions and contingent liabilities

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

### (a) Judgements

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

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### (a) Judgements (Continued)

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

Control over Shanghai Dazhong Gas (Continued)

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### (a) Judgements (Continued)

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

Control over Shanghai Dazhong Gas (Continued)

Control over Nantong Dazhong Gas Co., Ltd. (“Nantong Dazhong Gas”)

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### (a) Judgements (Continued)

#### *Significant influence over investees*

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

The Group also has investments in two entities, namely Shanghai Hangxin (as defined in note 26(a)) and Suchuang Gas (as defined in note 26(a)), in which the Group holds 16.13% and 19.75% of their equity interests respectively. The directors consider that the Group has significant influence over Shanghai Hangxin based on the following factors: (1) the Group has appointed 1 director (also the chairman) to the boards of directors which consisting 9 executive directors; and (2) the appointed director actively participates in the policy-making process of the entity. Besides, the directors consider that the Group has significant influence over Suchuang Gas based on the following factors: (1) the Group has appointed 1 director to the boards of directors which consisting 9 directors; and (2) the appointed director actively participates in the policy-making process of the entity.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### (b) Estimation and assumptions

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

#### *Useful lives of non-current assets*

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

#### *Impairment of non-financial assets (except for goodwill)*

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

#### *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of the Group's goodwill as at 31 December 2017 is RMB1,312,000 (2016: RMB1,312,000).

#### *Impairment of trade and other receivables*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### (b) Estimation and assumptions (Continued)

#### *Impairment of loans and leases receivables*

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of customers and related parties. If the financial conditions of the customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

#### *Construction contracts*

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

#### *Estimation of the amortisation period of deferred income*

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

#### *Retirement benefit obligations*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### (b) Estimation and assumptions (Continued)

#### *IFRIC 12 "Service Concession Arrangements"*

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### (b) Estimation and assumptions (Continued)

#### *Estimation of assets restoration obligations*

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

#### *Classification between finance lease and operating lease*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

## 6. SEGMENT INFORMATION

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 6. SEGMENT INFORMATION (Continued)

### (a) Business segment

For the year ended 31 December 2017	Piped gas supply RMB'000	Wastewater treatment RMB'000	Public			Financial services RMB'000	Segment total RMB'000
			Infra structure projects RMB'000	Investments RMB'000	Transportation services RMB'000		
Revenue from external customers	4,387,723	206,909	49,291	-	-	98,027	4,741,950
Inter-segment revenue	-	-	-	-	-	-	-
Reportable segment revenue	4,387,723	206,909	49,291	-	-	98,027	4,741,950
Reportable segment profit	137,168	72,773	17,258	495,356	228,414	32,687	983,656
Unallocated income/(expenses), net							(197,061)
Unallocated interest income							12,654
Unallocated interest expenses							(171,905)
Profit before income tax expense							627,344
Income tax expenses							(71,841)
Profit for the year							555,503
Reportable segment assets	5,887,681	1,256,164	678,780	3,836,093	2,632,114	1,852,979	16,143,811
Unallocated cash and cash equivalents							3,801,091
Corporate assets*							455,099
Total assets							20,400,001
Reportable segment liabilities	3,965,325	447,831	194,734	226,748	-	1,338,897	6,173,535
Unallocated borrowings							1,959,300
Corporate bonds, medium-term and short-term bonds payable							3,702,452
Corporate liabilities†							261,433
Total liabilities							12,096,720

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 6. SEGMENT INFORMATION (Continued)

### (a) Business segment (Continued)

For the year ended 31 December 2017	Public						Segment total RMB'000
	Piped gas supply RMB'000	Wastewater treatment RMB'000	Infra structure projects RMB'000	Investments RMB'000	Transportation services RMB'000	Financial services RMB'000	
Other segment information:							
Share of results of associates	17,657	1,776	-	170,198	228,414	-	418,045
Interest income	5,486	547	631	1,523	-	475	8,662
Interest expenses	14,307	24,008	16,133	10,595	-	25,605	90,648
Investment income and gains, net	-	-	-	368,033	-	-	368,033
Amortisation	2,785	24,219	-	-	-	82	27,086
Depreciation	334,584	2,966	1	-	-	671	338,222
Impairment loss/(reversal of impairment loss) on trade receivables	1,023	91	(2)	-	-	-	1,112
Impairment loss on loan and leases receivables	-	-	-	-	-	30,361	30,361
(Reversal of)/impairment loss on other receivables	(903)	(96)	2	83	-	6	(908)
Impairment loss on available-for-sale financial assets	-	-	-	2,368	-	-	2,368
Write down of inventories	563	-	-	-	-	-	563
Loss on disposal of property, plant and equipment	(11,826)	-	-	-	-	-	(11,826)
Investments in associates	404,233	-	-	2,465,204	2,632,114	-	5,501,551
Additional to non-current assets	434,462	315,322	8	-	-	55	749,847

\* Corporate assets consisted of property, plant and equipment, investment properties, goodwill, intangible assets and prepayments and other receivables and amount due from associate for the amounts approximately RMB62.2 million, RMB41.0 million, RMB1.3 million, RMB2.3 million, RMB19.1 million and RMB319.0 million respectively.

\* Corporate liabilities consisted of other payables, salary payables, dividend and interest payable and deferred tax liabilities for the amounts approximately RMB224.0 million, RMB11.4 million, RMB23.0 million and RMB1.2 million respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 6. SEGMENT INFORMATION (Continued)

### (a) Business segment (Continued)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 6. SEGMENT INFORMATION (Continued)

### (a) Business segment (Continued)

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

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

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

### (b) Geographic information

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

### (c) Information about major customers

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 7. REVENUE

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

An analysis of revenue is as follows:

	2017 RMB'000	2016 RMB'000
<b>Piped gas supply:</b>		
Sale of gas fuel	3,679,765	3,545,669
Gas pipeline construction income	409,358	350,787
Gas connection income (note 41)	222,149	218,112
Sale of related products	76,451	128,987
<b>Wastewater treatment:</b>		
Operations income	175,249	145,340
Financial income	31,660	32,793
<b>Public infrastructure projects:</b>		
Operations income	13,290	14,781
Financial income	36,001	40,716
<b>Financial services:</b>		
Interest income and related revenue	20,698	22,869
Financial leasing related income	77,329	68,342
	<b>4,741,950</b>	<b>4,568,396</b>

## 8. OTHER INCOME AND GAINS

	2017 RMB'000	2016 RMB'000
Bank interest income	21,316	14,620
Other interest income	–	4,119
Government grants	12,600	13,060
Loss on disposal of property, plant and equipment (note 20)	(11,826)	(13,358)
Rental income	6,665	10,567
Compensation income (note)	–	22,090
Others	9,021	6,012
	<b>37,776</b>	<b>57,110</b>

Note: Compensation income from related parties were recognised in 2016 for compensation for certain property, plant and equipment that the Group given up in prior year. The Company only recognised this compensation income in 2016 as the amount could only be reliably measured in 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 9. DISPOSAL OF SUBSIDIARIES IN PRIOR YEAR

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

### Pizhou Fountainhead Water Operation Co., Ltd.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 9. DISPOSAL OF SUBSIDIARIES IN PRIOR YEAR (Continued)

### Xuzhou Fountainhead Sewage Co., Ltd.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 10. BUSINESS ACQUISITION IN PRIOR YEAR

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

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

	RMB'000	RMB'000
Property, plant and equipment	1,515	
Long-term prepayments	397	
Trade receivables	369	
Prepayments and other receivables	14,215	
Cash and cash equivalents	140,292	
Other current assets	372	
Other current liabilities	(60,358)	
		96,802
Cash consideration paid		(98,114)
		<u>1,312</u>
Goodwill (note 23)		
Cash flow:		
Cash payment		98,114
Cash and cash equivalents acquired		(140,292)
		<u>(42,178)</u>
Net cash inflow arising from acquisition		

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 11. INVESTMENT INCOME AND GAINS, NET

	2017 RMB'000	2016 RMB'000
Gain/(loss) on disposal of financial assets, net:		
– Financial assets at fair value through profit or loss – held for trading	(42,002)	(124,835)
– Available-for-sale financial assets	251,253	13,643
– Government bonds	15,138	2,450
	<b>224,389</b>	(108,742)
Change in fair value of financial assets at fair value through profit or loss	17,984	(1,621)
Dividend income	125,660	213,610
Other financial income	–	7,879
	<b>368,033</b>	111,126

## 12. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings and corporate bonds	264,644	180,486
Less: Amounts capitalised (note)	(2,091)	(260)
	<b>262,553</b>	180,226

Note: Borrowing costs capitalised during the years arose on the general borrowing pool and are calculated by applying capitalisation rate of 5.00% (2016: 5.00%) to expenditure on qualifying assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 13. EMPLOYEE COMPENSATION COSTS

	2017 RMB'000	2016 RMB'000
Wage, salaries and allowances	402,622	385,011
Retirement benefit scheme contribution	93,343	103,358
Other benefits	85,063	61,424
	<b>581,028</b>	<b>549,793</b>

## 14. PROFIT BEFORE INCOME TAX EXPENSE

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

	2017 RMB'000	2016 RMB'000
Inventories recognised as expense	2,955,714	2,802,652
Amortisation on payments for leasehold land held for own use under operating leases	2,083	2,084
Amortisation on intangible assets (included in administrative expenses and cost of sales)	25,405	22,834
Auditor's remuneration	2,700	2,700
Depreciation of property, plant and equipment	339,981	328,898
Depreciation of investment properties	2,197	2,199
Impairment loss on trade receivables	1,112	603
Impairment loss on loan receivables	15,408	526
Impairment loss on lease receivables	14,953	–
Write down of inventories	563	–
Impairment loss/(reversal of impairment loss) on other receivables, net	2,118	(484)
Operating lease rental expenses in respect of buildings	10,486	10,322

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 15. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

For the year ended 31 December 2017	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefit plans contributions RMB'000	Total RMB'000
<b>Executive directors:</b>				
Yang Guoping ( <i>Chairman</i> )	1,920	–	–	1,920
Liang Jiawei	–	2,122	–	2,122
Yu Min	–	2,030	–	2,030
Zhuang Jianhao	–	1,534	–	1,534
Zhong Jinxing (note (e))	–	1,930	–	1,930
Yang Jicai (note (g))	–	1,250	–	1,250
Yang Weibiao (note (f))	–	1,240	–	1,240
<b>Non-executive directors:</b>				
Chan Wing Kin (note (h))	–	–	–	–
Li Songhua (note (d))	–	–	–	–
Cheung Yip Sang (note (h))	–	–	–	–
<b>Independent non-executive directors:</b>				
Wang Kaiguo (note (h))	–	–	–	–
Yao Cho Fai Andrew	100	–	–	100
Chow Siu Lui (note (a))	100	–	–	100
Wang Hongxiang (note (h))	–	–	–	–
Liu Zhengdong (note (h))	–	–	–	–
Cai Jianmin (note (e))	–	–	–	–
Yan Xuehai (note (c))	–	–	–	–
<b>Supervisors:</b>				
Cao Yongqin (note (e))	100	–	–	100
Zhao Siyuan	300	–	–	300
Yang Jicai (note (g))	–	–	–	–
Zhao Fei (note (h))	–	1,127	–	1,127
	<b>2,520</b>	<b>11,233</b>	<b>–</b>	<b>13,753</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 15. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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

Notes:

- (a) Appointed in April 2016.
- (b) Resigned in December 2016.
- (c) The Company received a resignation letter from Mr. Yan Xuehai resigning as an independent non-executive Director and the member of the audit committee of the Company due to his health condition on 20 February 2017 and with effect on 25 May 2017.
- (d) Re-designated from executive director to non-executive director in December 2016.
- (e) Resigned in April 2017.
- (f) Re-designated from supervisors to executive Director in May 2017.
- (g) Re-designated from executive Director to supervisors in May 2017.
- (h) Appointed in May 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 16. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, five (2016: five) were directors of the Company whose emoluments are included in the disclosures in note 15 above.

During the year ended 31 December 2017, no emoluments were paid by the Group to any of the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2016: nil). None of the directors waived emoluments during the year (2016: nil).

## 17. INCOME TAX EXPENSE

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

	2017 RMB'000	2016 RMB'000
PRC enterprise income tax		
– tax for the year	79,866	47,620
– under-provision in respect of prior years	2,289	144
Hong Kong profits tax		
– tax for the year	646	–
Deferred tax (note 31)	(10,960)	(1,064)
Income tax expense	<b>71,841</b>	46,700

Profits of subsidiaries established in the PRC are subject to PRC enterprise income tax based on the statutory rate of 25% (2016: 25%) during the year.

Profits of subsidiaries established in Hong Kong are subject to Hong Kong Profits tax at the statutory rate of 16.5% (2016: 16.5%) during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 17. INCOME TAX EXPENSE (Continued)

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

	2017 RMB'000	2016 RMB'000
Profit before income tax expense	627,344	680,510
Tax calculated at the PRC statutory rate of 25% (2016: 25%)	156,836	170,128
Effect of non-taxable income	(22,226)	(35,260)
Effect of non-deductible expenses	3,982	7,699
Tax effect of share of results of associates	(104,511)	(125,403)
Utilisation of tax losses previously not recognised	(3,278)	(9,912)
Tax effect of tax losses not recognised	47,954	49,903
Tax effect on changes on fair value of financial assets, impairment loss on assets and timing difference on employee benefits	(212)	(2,929)
Effect of tax exemptions granted to subsidiaries (note)	(3,871)	(6,019)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(5,122)	(1,651)
Under-provision in respect of prior years	2,289	144
Income tax expense	<b>71,841</b>	46,700

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

The Ministry of Finance and the State Administration of Taxation promulgated the "Notice on Printing and Distributing the VAT Concession Catalog for the Comprehensive Utilization of Resources and Services" ([2015] No. 78). Jiangsu Dazhong Water Group Co., Ltd. and some of its subsidiaries enterprises enjoy the VAT rebate policy, and the tax rebate rate is 70%.

According to the relevant PRC Enterprise Income Tax Law, Xuzhou Jiawang Public Water Operation Co., Ltd., a subsidiary of the Group, was approved by the Xuzhou County National Tax Authority to enjoy a 100% reduction of enterprise income tax for the years from 2017 to 2020, and a 50% deduction of enterprise income tax for the years from 2020 to 2023.

According to the relevant PRC Enterprise Income Tax Law, Pizhou Fountainhead Water Operation Co., Ltd., a subsidiary of the Group, was approved by the Pizhou County National Tax Authority to enjoy a 100% reduction of enterprise income tax for the years from 2016 to 2019, and a 50% deduction of enterprise income tax for the years from 2019 to 2022.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 18. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Final dividend proposed after the end of the year of RMB0.06 (2016: RMB0.06) per ordinary share	<b>177,146</b>	177,146

On 29 March 2018, the board of directors recommended the payment of final dividend of RMB0.06 per share, totalling approximately RMB177,146,000 for the year ended 31 December 2017. The proposed final dividend per share is based on the number of issued shares of the Company (i.e. 2,952,434,675 shares) as of the date of the board meeting (i.e. 29 March 2018) determining the final dividend.

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

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

## 19. EARNINGS PER SHARE

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

	2017	2016
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	<b>474,133</b>	547,642

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 19. EARNINGS PER SHARE (Continued)

	2017	2016
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<b>2,951,208,456</b>	2,499,424,347

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

On 9 January 2017, 49,730,000 H shares were issued by the Company pursuant to the partial exercise of over-allotment option and 4,973,000 H shares were converted from the Company's A shares transferred to National Council for Social Security Fund of the PRC in accordance with the relevant PRC regulations regarding reduction of state-owned shares upon the exercise of the partial over-allotment option. As a result, the Company has increased an aggregated 54,703,000 H shares and decreased 4,973,000 A shares immediately after completion of the transaction. As at 31 December 2017, the Company has 533,643,000 H Shares and 2,418,791,675 A shares respectively.

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the over-allotment during the year.

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 20. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Gas pipelines and machinery RMB'000	Equipment, furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>							
At 1 January 2016	197,897	14,634	59,314	6,006,330	50,829	647,804	6,976,808
Additions <sup>*</sup>	3,095	3,434	2,543	2,289	1,053	806,044	818,458
Acquired through business combination (note 10)	-	30	6	1,416	63	-	1,515
Transfer of construction in progress	318	-	6,496	674,430	2,447	(683,691)	-
Transfer to intangible assets (note 24)	(47,388)	-	-	(14,366)	-	(174,004)	(235,758)
Disposals of subsidiaries (note 9)	-	-	(203)	-	-	(12,263)	(12,466)
Disposals	-	(2,118)	(7,345)	(101,270)	(3,825)	(47,627)	(162,185)
At 31 December 2016 and 1 January 2017	153,922	15,980	60,811	6,568,829	50,567	536,263	7,386,372
Additions <sup>*</sup>	282	69	1,343	1,775	866	669,262	673,597
Acquired through business combination	-	707	123	-	-	10,599	11,429
Transfer of construction in progress	3,815	-	5,143	416,264	7,559	(432,781)	-
Disposals	(1,800)	(4,029)	(3,945)	(24,339)	(9,976)	-	(44,089)
At 31 December 2017	156,219	12,727	63,475	6,962,529	49,016	783,343	8,027,309
<b>Accumulated depreciation and impairment</b>							
At 1 January 2016	72,554	9,729	25,730	2,444,641	33,785	-	2,586,439
Charge for the year	5,291	1,694	5,671	312,135	4,107	-	328,898
Transfer to intangible assets (note 24)	(11,795)	-	-	(10,227)	-	-	(22,022)
Disposal of subsidiaries (note 9)	-	-	(48)	-	-	-	(48)
Written back on disposals	-	(211)	(6,385)	(87,123)	(3,636)	-	(97,355)
At 31 December 2016 and 1 January 2017	66,050	11,212	24,968	2,659,426	34,256	-	2,795,912
Charge for the year	4,955	2,036	5,634	321,885	5,471	-	339,981
Written back on disposals	(1,050)	(4,029)	(3,138)	(12,774)	(9,556)	-	(30,547)
At 31 December 2017	69,955	9,219	27,464	2,968,537	30,171	-	3,105,346
<b>Net book value</b>							
At 31 December 2017	86,264	3,508	36,011	3,993,992	18,845	783,343	4,921,963
At 31 December 2016	87,872	4,768	35,843	3,909,403	16,311	536,263	4,590,460

\* Including borrowing costs of approximately RMB2,091,000 (2016: RMB260,000) capitalised during the year ended 31 December 2017 (note 12).

As at 31 December 2017, the Group had certain buildings which did not have proper property certificates for the carrying amount of approximately RMB12,588,000 (2016: RMB12,899,000). The directors do not expect any restriction to continue the use of these properties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 21. INVESTMENT PROPERTIES

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

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

	RMB'000
<b>Cost</b>	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	99,400
<b>Accumulated depreciation</b>	
At 1 January 2016	32,253
Charge for the year	2,199
At 31 December 2016 and 1 January 2017	34,452
Charge for the year	2,197
At 31 December 2017	36,649
<b>Net book value</b>	
At 31 December 2017	62,751
At 31 December 2016	64,948
<b>Fair value</b>	
At 31 December 2017	341,660
At 31 December 2016	301,110

The estimated useful life of the Group's investment properties is 50 years until March 2049. The fair value of the investment properties has been determined on market value basis by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 21. INVESTMENT PROPERTIES (Continued)

The investment properties of the Group are measured at cost. The fair value disclosed are categorised as Level 3 valuation. The valuation technique is direct comparison method based on market observable transactions of similar properties and adjusted to reflect the conditions and locations of the subject properties. The highest and best use of the investment properties of the Group does not differ from its current use.

As at 31 December 2017, the Group had certain investment properties which did not have proper property certificates for the carrying amount of RMB3,096,000 (2016: RMB3,246,000). The directors do not expect any restriction to continue the use of these properties.

## 22. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	RMB'000
<b>Cost</b>	
At 1 January 2016	97,407
Disposals	<u>(11,063)</u>
At 31 December 2016 and 1 January 2017	86,344
Additions	<u>3,746</u>
At 31 December 2017	----- 90,090
<b>Accumulated amortisation</b>	
At 1 January 2016	16,572
Charge for the year	2,084
Written back on disposals	<u>(1,733)</u>
At 31 December 2016 and 1 January 2017	16,923
Charge for the year	<u>2,083</u>
At 31 December 2017	----- 19,006
<b>Net book value</b>	
At 31 December 2017	<u>71,084</u>
At 31 December 2016	<u>69,421</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 23. GOODWILL

	RMB'000
As at 1 January 2016	–
Acquired through business combination (note 10)	<u>1,312</u>
As at 31 December 2016, 1 January 2017 and 31 December 2017	<u>1,312</u>

For the purpose of impairment testing goodwill is allocated to a subsidiary namely Shanghai Dazhong Transportation Commerce, a cash generating unit (“CGU”) of the Group.

The recoverable amounts of this CGU are determined from value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, budgeted gross margin and turnover during the period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2016: 3%) which does not exceed the long-term growth rate for the transportation industry in the PRC. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this CGU. The growth rates, budgeted gross margin and turnover are determined based on the past performance and management’s expectation of market development. The rate used to discount the forecast cash flows is 18% (2016: 18%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 24. INTANGIBLE ASSETS

	<b>Wastewater treatment concession rights</b>	<b>Computer software</b>	<b>Technical knowhow</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>				
At 1 January 2016	247,398	10,516	5,646	263,560
Additions	31,279	74	–	31,353
Transfer from property, plant and equipment (note 20)	213,736	–	–	213,736
Disposals of subsidiaries (note 9)	(59,107)	–	–	(59,107)
	<hr/>			
At 31 December 2016 and 1 January 2017	433,306	10,590	5,646	449,542
	<hr/>			
Acquired through business combination	60,951	–	–	60,951
Additions	181,452	6,393	–	187,845
	<hr/>			
At 31 December 2017	675,709	16,983	5,646	698,338
	<hr style="border-top: 1px dashed black;"/>			
<b>Accumulated amortization and impairment</b>				
At 1 January 2016	69,456	4,916	5,646	80,018
Charge for the year	22,067	767	–	22,834
Disposals of subsidiaries (note 9)	(14,806)	–	–	(14,806)
	<hr/>			
At 31 December 2016 and 1 January 2017	76,717	5,683	5,646	88,046
Charge for the year	23,702	1,703	–	25,405
	<hr/>			
At 31 December 2017	100,419	7,386	5,646	113,451
	<hr style="border-top: 1px dashed black;"/>			
<b>Net book value</b>				
At 31 December 2017	575,290	9,597	–	584,887
	<hr/>			
At 31 December 2016	356,589	4,907	–	361,496
	<hr/>			

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 24. INTANGIBLE ASSETS (Continued)

In 2016, certain property, plant and equipment (the “Construction”) of the Group used in the wastewater treatment were not required to be transferred to the grantor and the Group has successfully obtained concession rights from the local government authority after completion of the construction. The Company agreed that the Construction would be transferred back to the grantor at the end of the concession period. As such, a carrying amount of approximately RMB213,736,000 of the Construction fall into the definition of IFRIC 12 “Service Concession Arrangements” for the years ended 31 December 2016 and were transferred from property, plant and equipment to intangible assets accordingly.

As at 31 December 2017, the Group has pledged the receivables from the concession rights for the bank loans in note 37.

Note:

The Group’s service concession arrangements are concession arrangements for wastewater treatment plants with various local government authorities in the PRC under IFRIC 12 “Service Concession Arrangements”. The concession rights arose from six wastewater treatment plants located in different cities in the PRC, namely Jiading, Sanbahe, Xuzhou Jiawang, Peixian, Pizhou and Lianyungang. Except for the wastewater plant in Pizhou which is operated under TOT arrangement, the rest are operated under BOT arrangements.

For wastewater treatment plants that are operated under BOT arrangements, the Group (the operator) was granted rights to construct, operate and maintain those wastewater plants for a period of 20 to 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfills the standard quality requirements of the grantors. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authorities. The infrastructure of the wastewater treatment plant, including the plant and equipment, know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantors or any grantors appointed agencies at the end of the concession period at nil or minimal consideration. The operator has the obligation to maintain and restore the wastewater treatment plants to their operational condition upon transferring to the grantors at the end of the concession period. These BOT arrangements do not contain renewal options. The arrangements will be early terminated only when a party breaches the relevant contracts or due to unforeseeable circumstances. All the operating rights of the above BOT arrangements are recognised as “intangible assets” in the consolidated financial statements.

For wastewater treatment plant in Pizhou, which is operated under TOT arrangement, the operator acquired the plant and was granted rights to operate and maintain the plant for a period of 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfils the standard quality requirements of the grantor. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authority. The infrastructure of the wastewater treatment plant, including the plant and equipment, know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantor or any grantor appointed agencies at the end of the concession period at nil consideration. The operator has the obligation to maintain and restore the wastewater treatment plant to its operational condition upon transferring to the grantor at the end of the concession period. The TOT arrangement does not contain renewal options. The arrangement will be early terminated only when a party breaches the contract or due to unforeseeable circumstances. The operating right of the above TOT arrangement is recognised as “intangible assets” in the consolidated financial statements.

No advance payments were made to the grantors for getting the above BOT and TOT arrangements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES

	2017 RMB'000	2016 RMB'000
Investment in subsidiaries		
– Unlisted shares, at cost	<b>3,412,199</b>	2,973,115

During the year, the amounts due from/(to) subsidiaries were unsecured, repayable on demand and interest-free.

Details of the Company's subsidiaries as at 31 December 2017 are as follows:

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海大眾燃氣有限公司 <sup>(1)(6)</sup> Shanghai Dazhong Gas	3 January 2001 PRC/PRC	RMB900,000,000	50	–	Piped gas supply
上海市南燃氣發展有限公司 <sup>(1)</sup> Shanghai South Gas Development Co., Ltd. ("Shanghai South Gas")	18 April 2001 PRC/PRC	RMB8,500,000	–	100	Construction and installation of gas pipelines
上海大眾燃氣投資發展有限公司 <sup>(1)(2)</sup> Shanghai Dazhong Gas Investment Developing Co., Ltd. ("Shanghai Dazhong Gas Investment")	14 August 2003 PRC/PRC	RMB107,100,000	100	–	Investment holdings
南通大眾燃氣有限公司 <sup>(1)</sup> Nantong Dazhong Gas	11 December 2003 PRC/PRC	RMB280,000,000	–	50	Piped gas supply
南通大眾燃氣設備有限公司 <sup>(1)</sup> Nantong Dazhong Gas Equipment Co., Ltd. ("Nantong Gas Equipment")	28 April 2004 PRC/PRC	RMB1,000,000	–	80	Sale of gas related products
南通大眾燃氣安裝工程有限公司 <sup>(1)</sup> Nantong Dazhong Gas Installation Engineering Co., Ltd. ("Nantong Gas Installation")	25 May 1990 PRC/PRC	RMB20,000,000	–	100	Distribution and sale of piped natural gas

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
如東大眾燃氣有限公司 <sup>(1)</sup> Rudong Dazhong Gas Co., Ltd. ("Rudong Dazhong Gas")	8 February 2006 PRC/PRC	RMB20,500,000	–	70	Distribution and sale of piped natural gas
南通開發區大眾燃氣有限公司 <sup>(1)</sup> Nantong Developing Zone Dazhong Gas Co., Ltd. ("Nantong Development Zone Gas")	5 February 2007 PRC/PRC	RMB50,000,000	–	100	Distribution and sale of piped natural gas
江蘇大眾水務集團有限公司 <sup>(1)</sup> Jiangsu Dazhong Water Group Co., Ltd. ("Jiangsu Dazhong Water")	4 April 1995 PRC/PRC	RMB50,000,000	–	80	Wastewater treatment operations
邳州源泉水務運營有限公司 <sup>(1)(5)</sup> Pizhou Fountainhead Water Operation Co., Ltd.	2 December 2004 PRC/PRC	RMB4,800,000	–	100	Wastewater treatment operations
徐州源泉污水處理有限公司 <sup>(1)(5)</sup> Xuzhou Fountainhead Sewage Co., Ltd.	19 December 2007 PRC/PRC	RMB5,800,000	–	100	Wastewater treatment operations
上海大眾市政發展有限公司 <sup>(1)</sup> Shanghai Dazhong Municipal Development Co., Ltd.	15 September 2003 PRC/PRC	RMB120,000,000	100	–	Municipal road operations
杭州蕭山錢塘污水處理有限公司 <sup>(1)</sup> Hangzhou Xiaoshan Qiantang Sewage Co., Ltd.	11 February 2004 PRC/PRC	RMB190,050,000	90	–	Wastewater treatment operations
上海大眾嘉定污水處理有限公司 <sup>(1)</sup> Shanghai Dazhong Jiading Sewage Co., Ltd.	17 March 2006 PRC/PRC	RMB200,000,000	10	90	Wastewater treatment operations
沛縣源泉水務運營有限公司 <sup>(1)</sup> Peixian Fountainhead Water Operation Co., Ltd.	24 April 2007 PRC/PRC	RMB5,800,000	–	100	Wastewater treatment operations



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
連雲港西湖污水處理有限公司 <sup>(1)</sup> Lianyungang West Lake Sewage Co., Ltd.	27 December 2007 PRC/PRC	RMB5,800,000	–	100	Wastewater treatment operations
徐州大眾水務運營有限公司 <sup>(1)</sup> Xuzhou Dazhong Water Operation Co., Ltd.	12 April 2010 PRC/PRC	RMB38,000,000	–	100	Wastewater treatment operations
上海翔殷路隧道建設發展有限公司 <sup>(1)</sup> Shanghai Xiangyin Road Tunnel Construction Development Co., Ltd.	24 September 2003 PRC/PRC	RMB285,000,000	87.16	12.84	Public infrastructure Projects
海南大眾海洋產業有限公司 <sup>(1)</sup> Hainan Dazhong Ocean Industry Co., Ltd.	4 June 1998 PRC/PRC	RMB30,000,000	100	–	Ocean business
上海衛銘生化股份有限公司 <sup>(1)</sup> Shanghai Weiming Biochemistry Co., Ltd.	18 December 1992 PRC/PRC	RMB75,600,000	–	87.67	Agriculture development
大眾(香港)國際有限公司 Dazhong (Hong Kong) International Corporation Limited ("Dazhong Hong Kong")	10 November 2008 Hong Kong/ Hong Kong	United States Dollar ("USD") 10,500,000	95.24	4.76	Investment business
上海大眾集團資本股權投資有限公司 <sup>(1)</sup> Shanghai Dazhong Group Capital Equity Investment Co., Ltd.	22 April 2010 PRC/PRC	RMB500,000,000	99	1	Investment business
上海大眾交通商務有限公司 <sup>(1)</sup> Shanghai Dazhong Transportation Commerce	25 June 2008 PRC/PRC	RMB100,000,000	100	–	Payment services
Fretum Construction & Engineering Enterprise Limited ("FCEEL")	17 September 2012 Hong Kong/ Hong Kong	USD3,000,000	–	100	Investment business

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Galaxy Building & Development Corporation Limited ("GBDCL")	17 September 2012 Hong Kong/ Hong Kong	USD3,000,000	–	100	Investment business
Ace Best Investing Management Corporation Limited ("ABIMCL")	17 September 2012 Hong Kong/ Hong Kong	USD5,000,000	–	100	Investment business
瓊海春盛旅遊發展有限公司 <sup>(1)</sup> Qionghai Chunsheng Travel Development Co., Ltd.	8 January 2014 PRC/PRC	RMB5,500,000	100	–	Financial consultant
上海大眾資產管理有限公司 <sup>(1)</sup> Shanghai Dazhong Assets Management Co., Ltd.	8 August 2014 PRC/PRC	RMB500,000,000	100	–	Assets management
上海大眾融資租賃有限公司 <sup>(1)(5)</sup> Shanghai Dazhong Financial Leasing Co., Ltd. ("Shanghai Dazhong Financial Leasing")	19 September 2014 PRC/PRC	RMB500,000,000	55	25	Financial leasing
上海閔行大眾小額貸款股份有限公司 <sup>(1)</sup> Shanghai Minhang Dazhong Micro-credit Co., Ltd. ("Dazhong Mirco-credit")	14 November 2013 PRC/PRC	RMB200,000,000	50	–	Micro-credit services
上海大眾環境產業有限公司 <sup>(1)</sup> Shanghai Dazhong Environment Industry Co., Ltd.	14 July 2003 PRC/PRC	RMB252,000,000	88.97	11.03	Investment holdings
Interstellar Capital Investment Co., Limited	19 December 2014 Hong Kong/ Hong Kong	USD10,000,000	–	100	Investment holding
眾銀(國際)金融服務有限公司 <sup>(7)</sup> Allpay (International) Finance Service Corporation Limited ("Allpay (International)")	8 April 2016 Hong Kong/ Hong Kong	HKD50,000,000	–	100	Payment service

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海眾貢信息服務有限公司 <sup>(1)</sup> Shanghai Zhonggong Information Service Co., Ltd.	12 July 2016 PRC/PRC	RMB10,000,000	100	–	Consultant service
南海春茂生態農業發展有限公司 <sup>(1)</sup> South China Sea Chunmao Ecological Agriculture Development Co., Ltd.	4 August 2016 PRC/PRC	RMB2,000,000	70	–	Agriculture development
Platinum Capital Investment Limited <sup>(3)</sup>	31 July 2017 Cayman Islands/ Cayman Islands	USD1	–	100	Investment holding
Dazhong (Vietnam) Corporation Limited <sup>(4)</sup>	22 December 2017 Vietnam/Vietnam	–	–	100	Investment holding

Notes:

- The English names of the subsidiaries registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.
- During the year ended 31 December 2016, the Group's interest in Shanghai Dazhong Gas Investment increased from 93.37% to 100% accordingly.
- During the year ended 31 December 2017, the Group has incorporated a subsidiary in Cayman Islands with the registered capital of USD1.
- During the year ended 31 December 2017, the Group has incorporated a subsidiary in Vietnam with the registered capital of USD5,000,000. As at 31 December 2017, the registered capital of this subsidiary was not yet paid-up.
- During the year ended 31 December 2017, the Company has further acquired 15% equity shares of Shanghai Dazhong Financial Leasing and after completion of the share transfer, the Group holds 80% of its shares.
- During the year ended 31 December 2017, Shanghai Dazhong Gas increased registered capital by RMB200,000,000, which RMB100,000,000 was paid-up as at 31 December 2017.
- During the year ended 31 December 2017, Dazhong Hong Kong acquired remaining 40% equity interest of Allpay (International) and increase its registered capital to HKD50,000,000.

As at 31 December 2017, Shanghai Dazhong Gas (a 50% owned subsidiary of the Company), Nantong Dazhong Gas (a 50% owned subsidiary of the Company) and Shanghai Dazhong Financial Leasing (a 80% owned subsidiary of the Company) have material non-controlling interests ("NCI"). The NCI of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES (Continued)

Summarised financial information in relation to the significant non-controlling interest before intra-group elimination is presented below:

### Shanghai Dazhong Gas

	2017 RMB'000	2016 RMB'000
Revenue	3,634,647	3,587,344
Profit for the year	93,894	78,946
Total comprehensive income for the year	95,871	108,318
Profit allocated to NCI	44,063	36,307
Dividends paid to NCI	–	–
Cash flows from operating activities	354,148	387,367
Cash flows from investing activities	(421,496)	(305,748)
Cash flows from financing activities	88,364	(11,374)
Net cash inflows	<b>21,016</b>	70,245
	2017 RMB'000	2016 RMB'000
Current assets	819,005	560,142
Non-current assets	3,651,847	3,482,990
Current liabilities	(2,545,530)	(2,340,759)
Non-current liabilities	(630,150)	(603,073)
Net assets	<b>1,295,171</b>	1,099,300
Accumulated NCI	<b>647,208</b>	555,458

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES (Continued)

### Nantong Dazhong Gas

	2017 RMB'000	2016 RMB'000
Revenue	753,076	656,211
Profit for the year	64,170	43,874
Total comprehensive income for the year	48,639	43,874
Profit allocated to NCI	23,557	22,652
Dividends paid to NCI	(17,500)	14,500
Cash flows from operating activities	125,069	149,083
Cash flows from investing activities	(122,722)	(169,706)
Cash flows from financing activities	(40,549)	(32,399)
Net cash outflows	<b>(38,202)</b>	(53,022)
	2017 RMB'000	2016 RMB'000
Current assets	358,822	335,343
Non-current assets	1,120,819	1,137,795
Current liabilities	(431,122)	(447,072)
Non-current liabilities	(645,983)	(637,169)
Net assets	<b>402,536</b>	388,897
Accumulated NCI	<b>200,251</b>	194,194

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 25. INTERESTS IN SUBSIDIARIES (Continued)

### Shanghai Dazhong Financial Leasing

	2017 RMB'000	2016 RMB'000
Revenue	77,329	68,342
Profit for the year	36,950	43,377
Total comprehensive income for the year	30,247	43,377
Profit allocated to NCI	8,978	15,182
Dividend paid to NCI	(17,500)	–
Cash flows from operating activities	53,769	54,090
Cash flows from investing activities	(492,891)	(179,376)
Cash flows from financing activities	391,083	15,823
Net cash outflows	<b>(48,039)</b>	(109,463)
	2017 RMB'000	2016 RMB'000
Current assets	1,000,443	684,265
Non-current assets	901,434	619,305
Current liabilities	(609,313)	(295,215)
Non-current liabilities	(754,937)	(450,975)
Net assets	<b>537,627</b>	557,380
Accumulated NCI	<b>107,525</b>	195,083

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 26. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	5,259,680	4,461,515
Goodwill	241,871	222,971
	<b>5,501,551</b>	<b>4,684,486</b>

The amount due from an associate represented a temporary loan of RMB318,996,000 to Shanghai Shi He Industrial Co., Ltd. The amount was unsecured, non-interest-bearing and repayable on demand.

(a) Details of the Group's associates as at 31 December 2017 are as follows:

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital (RMB)	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
大眾交通(集團)股份有限公司 <sup>(1)(3)</sup> Dazhong Transportation (Group) Co., Ltd. ("Dazhong Transportation Group")	24 December 1988 PRC/PRC	2,364,122,864	19.95	6.76	Public transportation
深圳市創新投資集團有限公司 <sup>(1)(2)</sup> Shenzhen Capital Group Co., Ltd. ("Shenzhen Capital Group")	26 August 1999 PRC/PRC	4,202,249,520	13.93	–	Investment holding and provision of financial consultation and assets management services
上海電科智能系統股份有限公司 <sup>(1)</sup> Shanghai Dianke Intelligence System Inc. ("SEISYS")	12 December 2007 PRC/PRC	100,000,000	28.00	–	Provision of products and services for smart transportation solution
上海杭信投資管理有限公司 <sup>(1)(2)</sup> Shanghai Hangxin Investment Management Co., Ltd. ("Shanghai Hangxin")	22 April 2004 PRC/PRC	255,600,000	16.13	–	Investment business
上海興燁創業投資有限公司 <sup>(1)</sup> Shanghai Xingye Venture Capital Co., Ltd. ("Xingye Venture Capital")	4 June 2008 PRC/PRC	40,000,000	20.00	–	Investment business

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 26. INVESTMENTS IN ASSOCIATES (Continued)

(a) Details of the Group's associates as at 31 December 2017 are as follows: (Continued)

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital (RMB)	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海徐匯昂立小額貸款股份有限公司 <sup>(1)</sup> Shanghai Xuhui Onlly Micro-credit Co., Ltd. ("Xuhui Onlly Micro-credit")	3 November 2012 PRC/PRC	150,000,000	20.00	–	Micro-credit services
蘇創燃氣股份有限公司 <sup>(2)</sup> Suchuang Gas Co., Ltd. ("Suchuang Gas")	4 July 2013 Cayman Islands/ PRC	50,000,000	–	19.75	Sale of gas, provision of gas transmission and gas pipelines construction and installation
上海華燦股權投資基金合夥 <sup>(1)(4)(5)</sup> Shanghai Huacan Equity Investment Fund Partnership (Limited Partnership)	10 March 2017 PRC/PRC	830,000,000	42.17	–	Investment fund
上海世合實業有限公司 <sup>(1)(6)</sup> Shanghai Shihe Industrial Co., Ltd. ("Shanghai Shihe")	11 March 2014 PRC/PRC	20,000,000	40.00	–	Investment fund

Notes:

- The English names of the associates registered in the PRC represents the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.
- During the year, the Group held, directly or indirectly through its subsidiaries, less than 20% of the voting rights of these entities. Nevertheless, the directors concluded that the Group has significant influence over these entities and these entities are therefore accounted for as associates using equity method. Please refer to note 5(a) for basis of conclusion.
- During the year, the Group acquired additional equity interests of 0.95% (2016: 1.80%) in Dazhong Transportation Group.
- During the year, the Company entered to a Partnership agreement to set up a fund for investing purpose, in which the Company held 60.24% equity interest of the partnership fund. However, Limited Partner is restricted to participate in any investing and operating activities and thus the Company has no controlling power over this investment fund. The power and operating authority were delegated to General Partner. Thus, the Company considered that it only has significant influence on this partnership fund and classified this limited partnership as an associate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 26. INVESTMENTS IN ASSOCIATES (Continued)

(a) Details of the Group's associates as at 31 December 2017 are as follows: (Continued)

Notes: (Continued)

5. On 21 March 2017, the Company paid the initial investment amount of RMB500 million. On 14 July 2017, the Company entered into a Share Transfer Agreement and a supplementary agreement with Shanghai Dazhong Business Management Co., Ltd. The Company transferred its corresponding rights and obligations of capital injection of RMB300 million to Shanghai Dazhong Business Management Co., Ltd., and thereafter, the Company holds 42.17% of equity interest of the Huacan Fund.
6. During the year, the Company entered to another partnership agreement to set up a fund for investing purpose, in which the Company held 40% equity interest of the partnership fund. As a Limited Partner, the Company is restricted to participate in any investing and operating activities and thus the Company has no controlling power over this investment fund. The power and operating authority were delegated to General Partner. Thus, the Company considered that it only has significant influence on this partnership fund and classified this limited partnership as an associate.

### (b) Summarised financial information (material associates)

(i) *Dazhong Transportation Group*

	2017 RMB'000	2016 RMB'000
Revenue	2,558,616	3,226,318
Profit from continuing operations	927,289	620,237
Other comprehensive income	(496,169)	313,448
Total comprehensive income	431,120	933,685
Dividend received from the associate	45,133	37,621
Current assets	6,281,938	6,012,168
Non-current assets	9,557,367	9,925,854
Current liabilities	(5,177,538)	(5,084,022)
Non-current liabilities	(902,153)	(1,070,685)
Net assets	9,759,614	9,783,315
<i>Reconciliation to the Group's interests in the associate:</i>		
Proportion of the Group's ownership	26.71%	25.76%
Group's share of net assets of the associate	2,531,078	2,387,668
Goodwill	118,884	99,938
Elimination of unrealised profit	(17,848)	(17,848)
Carrying amount of the associate	2,632,114	2,469,758
Fair value of the Group's investment based on quoted market price	3,040,372	3,778,752

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 26. INVESTMENTS IN ASSOCIATES (Continued)

### (b) Summarised financial information (material associates) (Continued)

#### (ii) Shenzhen Capital Group

	2017 RMB'000	2016 RMB'000
Revenue	1,006,913	588,297
Profit from continuing operations	1,311,845	1,345,285
Other comprehensive income	130,161	(1,755,590)
Total comprehensive income	1,442,006	(410,305)
Dividends received from the associate	64,398	58,544
	<hr/>	
Current assets	4,340,482	3,325,673
Non-current assets	21,882,773	18,176,015
Current liabilities	(9,192,434)	(7,029,337)
Non-current liabilities	(3,512,376)	(2,352,085)
	<hr/>	
Net assets	13,518,445	12,120,266
	<hr/>	
<i>Reconciliation to the Group's interests in the associate:</i>		
Proportion of the Group's ownership	13.93%	13.93%
Group's share of net assets of the associate	1,709,666	1,579,225
	<hr/>	
Carrying amount of the associate	1,709,666	1,579,225

### (c) Summarised financial information (immaterial associates)

	2017 RMB'000	2016 RMB'000
Share of the associates' profit from continuing operations	26,661	179,203
Share of the associates' other comprehensive income	-	(112,813)
	<hr/>	
Share of the associates' total comprehensive income	26,661	66,390
	<hr/>	
	2017 RMB'000	2016 RMB'000
Carrying amount of individually immaterial associates in the consolidated statement of financial position	1,159,771	512,470
	<hr/>	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 27. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 RMB'000	2016 RMB'000
<b>Non-current investments</b>		
– Listed debt investments	11,743	18,104
– Listed equity investments	121,698	460,213
– Unlisted equity investments (note)	817,402	368,903
	<b>950,843</b>	847,220
Less: Allowance for impairment losses	<b>(57,599)</b>	(55,231)
	<b>893,244</b>	791,989
<b>Current investments</b>		
– Investment-linked deposits*	175,000	160,000

\* These investment-linked deposits products were provided by the PRC banking institutions with guaranteed rates of return at fixed periods of terms within 3 months generally. The directors assessed that (i) the fair value of embedded derivative of these deposits was insignificant and accordingly such embedded derivative had not been separately recognised; and (ii) the costs of these deposits are approximated to their fair value, given that these deposits were with guaranteed rates of return and short maturities of within 3 months generally.

Note:

The unlisted equity instruments held by the Group are issued by private companies. As the reasonable range of fair value estimation is so significant that the directors are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period. The Group assessed, at the end of the year, whether there was any objective evidence that the unlisted equity investments were impaired. The steps taken by the directors in assessing whether such objective evidence existed mainly include (i) obtaining information about whether there were significant changes with an adverse effect that had taken place in the technological, market, economic or legal environment in which the investees operated, such as structural changes in the industries in which the investees operate, changes in the level of demand for the goods or services sold by investees resulting from product obsolescence, changes in the political or legal environments affecting the business of the investees; and (ii) whether there was any observable data that came to the attention of the Group about loss events such as changes in the investee's financial condition evidenced by changes in its liquidity, credit rating, profitability, cash flows, debt/equity ratio and level of dividend payment of the investees, that indicates that the cost of the investments might not be recovered. When objective evidence indicated any such individual asset was impaired, the amount of impairment loss was measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 27. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

In the opinion of the directors, non-current available-for-sale financial assets are not expected to be realised within one year from the end of reporting period.

During the year, the Group held, directly or indirectly through its subsidiaries, 20% or more of the voting rights of certain entities now accounted for as available-for-sale financial assets. Nevertheless, the directors concluded that the Group does not have significant influence over these entities and these entities are therefore accounted for as available-for-sale financial assets measured at cost less impairment. Please refer to note 5(a) for basis of conclusion.

## 28. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables		
– Trade receivables	327,623	351,652
– Bills receivables	–	4,150
	327,623	355,802
Less: Allowance for impairment losses	(20,974)	(19,862)
	306,649	335,940
Current portion	306,649	335,940
Non-current: retention sum for construction contracts (note)	149,445	463,337
	<b>456,094</b>	<b>799,277</b>

The Group's trading terms with its customers are mainly on credit. The credit period is generally within 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Although the Group's trade receivables relate to a number of customers, there is concentration of credit risk. The trade receivables from the five largest debtors as at 31 December 2017 represented 24.51% (2016: 26.46%) of total trade receivables, while 14.28% (2016: 11.53%) of the total receivables were due from the largest debtor.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 28. TRADE AND BILLS RECEIVABLES (Continued)

An aged analysis of the trade and bills receivables of the Group, excluding the retention receivables, as at the end of reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	297,561	327,088
1 to 2 years	6,915	6,929
2 to 3 years	3,415	2,962
3 to 4 years	2,146	2,336
4 to 5 years	1,837	1,764
Over 5 years	15,749	14,723
	<b>327,623</b>	355,802
Less: Allowance for impairment losses	<b>(20,974)</b>	(19,862)
	<b>306,649</b>	335,940

The aged analysis of the trade and bills receivables from third parties of the Group, excluding the retention receivables, which are not individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	290,459	301,986
Within 1 year past due	4,126	22,189
1 to 2 years past due	6,570	6,582
2 to 3 years past due	3,073	2,666
3 to 4 years past due	1,502	1,635
4 to 5 years past due	919	882
	<b>306,649</b>	335,940

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 28. TRADE AND BILLS RECEIVABLES (Continued)

Note: The amounts include retention sum for construction contracts, which represents retention receivables due from customers upon completion of the free maintenance period of the construction work, which normally last from 5 to 15 years. As at 31 December 2017 and 2016, retention receivables are neither past due nor impaired.

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

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

As at 31 December 2017, the Group has pledged the trade receivable of approximately RMB166,926,000 for bank loans (note 37).

The below table reconciles the impairment loss of trade receivables during the year:

	2017 RMB'000	2016 RMB'000
At beginning of the year	19,862	19,259
Impairment loss recognised	1,112	603
At end of the year	<b>20,974</b>	19,862

## 29. LEASE RECEIVABLES

As 31 December 2017, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery, solar equipment and hotel equipment financial leasing arrangements, is as follows:

	Motor vehicles RMB'000	Machinery RMB'000	Solar equipment RMB'000	Hotel equipment RMB'000	Total RMB'000
Lease receivables	34,900	1,195,625	212,708	66,815	1,510,048
Less: Unearned finance income	(1,993)	(129,385)	(9,908)	(4,556)	(145,842)
Less: Allowance for impairment loss	-	(332)	-	(14,621)	(14,953)
At 31 December	<b>32,907</b>	<b>1,065,908</b>	<b>202,800</b>	<b>47,638</b>	<b>1,349,253</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 29. LEASE RECEIVABLES (Continued)

An aged analysis of lease receivables as at 31 December 2017, determined based on the age of the receivables since the effective dates of the relevant lease contracts, is as follows:

	Lease receivables RMB'000	Unearned finance income RMB'000	Allowance for impairment loss RMB'000	Net lease receivables RMB'000
Within 1 year	718,586	(85,553)	(12,801)	619,827
1 to 2 years	443,808	(42,871)	(2,152)	398,785
2 to 3 years	279,052	(14,962)	–	264,090
3 to 4 years	65,789	(2,437)	–	63,352
4 to 5 years	2,813	(18)	–	2,795
	<b>1,510,048</b>	<b>(145,842)</b>	<b>(14,953)</b>	<b>1,349,253</b>
Less: Non-current portion	<b>(791,463)</b>	<b>60,289</b>	<b>2,152</b>	<b>(729,022)</b>
Current portion	<b>718,585</b>	<b>(85,553)</b>	<b>(12,801)</b>	<b>620,231</b>

As 31 December 2016, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery and solar equipment financial leasing arrangements, is as follows:

	Motor vehicles RMB'000	Machinery RMB'000	Solar equipment RMB'000	Hotel equipment RMB'000	Total RMB'000
Lease receivables	67,383	540,468	407,005	107,026	1,121,882
Less: Unearned finance income	(6,380)	(79,560)	(34,223)	(10,787)	(130,950)
At 31 December	<b>61,003</b>	<b>460,908</b>	<b>372,782</b>	<b>96,239</b>	<b>990,932</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 29. LEASE RECEIVABLES (Continued)

An aged analysis of lease receivables as at 31 December 2016, determined based on the age of the receivables since the effective dates of the relevant lease contracts, is as follows:

	Lease receivables RMB'000	Unearned finance income RMB'000	Net lease receivables RMB'000
Within 1 year	446,665	(70,980)	375,685
1 to 2 years	399,750	(37,452)	362,298
2 to 3 years	167,359	(14,581)	152,778
3 to 4 years	60,757	(6,251)	54,506
4 to 5 years	47,351	(1,686)	45,665
	<hr/>		
	1,121,882	(130,950)	990,932
Less: Non-current portion	<hr/> (675,217)	<hr/> 59,970	<hr/> (615,247)
Current portion	<hr/> 446,665	<hr/> (70,980)	<hr/> 375,685

Lease receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB2,291,662,087 (2016: RMB1,561,460,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 30. AMOUNT DUE FROM GRANTOR

A profile of the amount due from grantor as at the end of the reporting period, based on the due date, is as follows:

	2017 RMB'000	2016 RMB'000
Due within 1 year	36,698	34,847
Non-current portion	581,670	618,369
	<b>618,368</b>	653,216

The credit quality of amount due from grantor that is neither past due nor impaired has been assessed by reference to historical information about counterparty default rate. The existing counterparty did not have default in the past.

The Group recognised financial asset – amount due from grantor in respect of its public infrastructure projects arising from a BOT arrangement. The significant aspects of the service concession arrangement are summarised as follows:

- (a) The Group entered into a service concession arrangement with the local government authority (i.e., grantor) for the Xianyin Road Tunnel construction and operation of which is located in Shanghai, the PRC for a concession period of 25 years. Pursuant to the service concession arrangement, the Group has to design, construct and operate the Xianyin Road Tunnel, and has the obligation to maintain the Xianyin Road Tunnel in good condition. The Group will be paid for its services over the service concession period at prices stipulated through a pricing mechanism. Upon expiry of the concession period, the Xianyin Road Tunnel and the related facilities will be transferred to the grantor at nil consideration.

The service concession arrangement does not contain any renewal options. The standard rights of the grantor to terminate include failure of the Group to construct and operate the Xianyin Road Tunnel and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the arrangement include failure to receive payments for road and tunnel service from the grantor and in the event of a material breach of the terms of the agreement.

- (b) The public infrastructure projects with financial receivables amounting to approximately RMB618,368,000 (2016: RMB653,216,000) at the end of the reporting period are pledged to secure the loans taken up by the Group (note 37).

Amount due from grantor is in respect of revenue from construction services under BOT arrangement and bears interest at a rate of 5.4% (2016: 5.4%) per annum. The amount was not yet due for payment at the end of each year and will be settled by revenue to be generated during the operating periods of the BOT arrangement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 31. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Impairment of assets RMB'000	Provision RMB'000	Fair value changes of available-for- sale financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	399	4,171	(99,134)	(6,078)	(100,642)
Credited/(charged) to profit or loss	237	(47)	(3)	(1,251)	(1,064)
Credited to other comprehensive income	–	–	21,794	1,182	22,976
At 31 December 2016 and 1 January 2017	<b>636</b>	<b>4,124</b>	<b>(77,343)</b>	<b>(6,147)</b>	<b>(78,730)</b>
Credited/(charged) to profit or loss	<b>9,149</b>	<b>3,316</b>	<b>3,152</b>	<b>(26,577)</b>	<b>(10,960)</b>
Credited to other comprehensive income	–	–	<b>62,233</b>	<b>25,071</b>	<b>87,304</b>
At 31 December 2017	<b>9,785</b>	<b>7,440</b>	<b>(11,958)</b>	<b>(7,653)</b>	<b>(2,386)</b>

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 RMB'000	2016 RMB'000
Deferred tax assets	<b>32,406</b>	20,495
Deferred tax liabilities	<b>(34,792)</b>	(99,225)
	<b>(2,386)</b>	(78,730)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 31. DEFERRED TAX ASSETS/(LIABILITIES) (Continued)

Deferred tax assets have not been recognised for the following:

	2017 RMB'000	2016 RMB'000
Deductible temporary differences	202,583	242,310
Unused tax losses	474,385	308,122
	<b>676,968</b>	<b>550,432</b>

No deferred tax asset is recognised in relation to such tax losses and other deductible temporary differences due to the unpredictability of future profit streams.

Tax losses unrecognised as deferred tax assets that will expire in:

	2017 RMB'000	2016 RMB'000
2017	–	7,107
2018	78,911	79,740
2019	12,762	13,340
2020	8,279	8,323
2021	179,532	199,612
2022	142,351	–
	<b>474,385</b>	<b>308,122</b>

## 32. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	10,046	14,681
Work-in-progress	2,404	579
Finished goods	14,285	12,649
	<b>26,735</b>	<b>27,909</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 33. LOAN RECEIVABLES

	2017 RMB'000	2016 RMB'000
Loan receivables	160,830	232,800
Less: Allowance for impairment losses	(23,323)	(7,915)
	<b>137,507</b>	<b>224,885</b>

The Group's loan receivables, which arise from the micro-credit business of providing loans in the PRC, are denominated in RMB.

Loan receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the end of reporting period is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB302,000,000 (2016: RMB338,537,000).

An aging analysis of loan receivables (that are not considered to be impaired) as at the end of the reporting period, based on the payment due date, is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	100,584	122,364
Less than 1 year past due	11,250	57,635
Over 1 year past due	25,673	44,886
	<b>137,507</b>	<b>224,885</b>

A maturity profile of the gross amount of loan receivables as at the end of the reporting period, based on the maturity date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	80,000	149,100
1 to 2 years	36,600	33,000
2 to 3 years	44,230	50,700
	<b>160,830</b>	<b>232,800</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 33. LOAN RECEIVABLES (Continued)

The credit quality of loan receivables that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates. The existing counterparties did not have defaults in the past.

The below table reconciles the impairment loss of loan receivables during the year:

	2017 RMB'000	2016 RMB'000
At beginning of the year	7,915	7,389
Impairment loss recognised	15,408	526
At end of the year	<b>23,323</b>	7,915

## 34. PREPAYMENTS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	20,368	9,635
Other receivables	72,860	73,018
Interest receivables	23	26
Dividend receivables	9,021	876
	<b>102,272</b>	83,555
Less: Allowance for impairment losses	<b>(8,446)</b>	(6,328)
	<b>93,826</b>	77,227

The below table reconciles the impairment loss of prepayments and other receivables during the year:

	2017 RMB'000	2016 RMB'000
At beginning of the year	6,328	23,153
Impairment loss recognised	2,118	–
Reversal of impairment loss previously recognised	–	(484)
Written-off	–	(16,341)
At end of the year	<b>8,446</b>	6,328

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000
Listed equity investments	19,440	72,541
Listed debt investments	1,738	1,562
	<b>21,178</b>	<b>74,103</b>

## 36. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	5,131,981	3,417,733
Less: Pledged short-term deposits	(219,473)	(159,000)
Cash and cash equivalents	<b>4,912,508</b>	<b>3,258,733</b>

Cash and banks balances earn interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

As at 31 December 2017, the pledged deposits RMB209,010,000 represent deposits pledged to a bank for secure bank loan of outstanding amount of USD30,500,000 (note 37) and RMB10,463,000 was pledged for banking facilities.

As at 31 December 2016, the pledged deposits RMB158,000,000 represent deposits pledged to a bank for secure bank loan of outstanding amount USD49,750,000 (note 37) and RMB1,000,000 represent deposits pledged to banks for the Group's investing operation.

RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 37. BORROWINGS

	2017 RMB'000	2016 RMB'000
<b>Current portion</b>		
Secured bank loans	798,962	537,296
Unsecured bank loans	2,209,051	1,407,375
	<b>3,008,013</b>	1,944,671
<b>Non-current portion</b>		
Secured bank loans	113,450	14,550
Unsecured bank loans	714,432	363,605
	<b>827,882</b>	378,155
Total borrowings	<b>3,835,895</b>	2,322,826
Bank loans interest at rate per annum in the range of	<b>2.44% to 5.23%</b>	0.93% to 5.00%

At 31 December, total current and non-current bank borrowings were scheduled to repay as follows:

	2017 RMB'000	2016 RMB'000
On demand or within one year	3,008,013	1,944,671
More than one year, but not exceeding two years	827,882	145,043
More than two years, but not exceeding five years	–	233,112
	<b>3,835,895</b>	2,322,826

The carrying amounts of the Group's current interest-bearing bank loans approximate to their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 37. BORROWINGS (Continued)

The Group's interest-bearing bank loans are secured by the pledges of the following assets with carrying values at the end of the year as follows:

	Notes	2017 RMB'000	2016 RMB'000
<b>Pledge of assets:</b>			
Amount due from grantor	(i)	<b>618,368</b>	653,216
Trade receivables	(ii)	<b>178,243</b>	–
Concession rights	(ii) & (iii)	<b>549,707</b>	–
Pledged deposits	(iv)	<b>209,010</b>	158,000
Available-for-sale financial assets	(v)	–	18,104
Financial assets at fair value through profit or loss	(v)	–	74,066
Investments in associates	(v) & (vi)	–	590,073

Notes:

- (i) Bank loans amounting to RMB128,000,000 (2016: RMB185,000,000) were secured by the amount due from grantor in note 30.
- (ii) Bank loans amounting to RMB353,985,000 (2016: nil) were secured by trade receivables in note 28.
- (iii) Bank loans amounting RMB117,684,000 (2016: nil) were secured by concession rights of certain wastewater plants in note 24.
- (iv) A bank loan amounting USD30,500,000 (equivalent to RMB199,293,000) was secured pledged deposits in note 36.
- (v) As at 31 December 2016, bank loans amounting to RMB21,730,000 were secured by the equity and debt investments included in investments in associates, available-for-sale financial assets and financial assets at fair value through profit or loss in note 26, note 27 and note 35 respectively.
- (vi) As at 31 December 2016, a bank loan amounting USD49,750,000 was secured by 72 million shares of Dazhong Transportation Group in note 26 and pledged deposits in note 36.

At 31 December 2017, the Company has issued guarantees to banks to secured banking facilities granted to certain subsidiaries to the extent of RMB2,500,000,000 (2016: RMB2,500,000,000). The aforesaid bank loans outstanding as at 31 December 2017 were RMB1,242,257,000 (2016: RMB1,002,699,000).

Most of the Group's bank borrowings agreements provide that without the lending banks' prior written consent, the Group cannot conduct reorganisations, mergers, consolidations, changes of major equity holders, changes of business model, transfer or sale of major assets, investments, guarantees, substantial increases of debt or other actions that may affect the Group's ability to repay the loans.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 37. BORROWINGS (Continued)

Included in unsecured loans were loan from a fellow subsidiary of Shanghai Gas Group, one of the shareholders of the Company, amounting to RMB300,000,000 (2016: RMB300,000,000). These balances were unsecured, interest bearing at interest rate of 3.92% (2016: 3.92%) per annum respectively and repayable within one year.

The Group has aggregated banking facilities of RMB8,189,758,000 (2016: RMB6,846,782,000) acquired from the bankers, of which RMB3,835,895,000 (2016: RMB2,322,826,000) were utilised and RMB4,353,863,000 (2016: RMB4,523,956,000) were unutilised as at 31 December 2017.

## 38. CORPORATE BONDS, MEDIUM-TERM AND SHORT-TERM BONDS PAYABLE

### Corporate bonds

As approved by the China Securities Regulatory Commission document [2011] No. 2079, the Company issued domestic corporate bonds with an aggregate principal amount of RMB1.6 billion on 6 January 2012. The bonds mature in six years due on 5 January 2018 and bear interest at a benchmark interest rate (based on the National Interbank Funding Centre released interest rate) plus an interest margin of 2.95% per annum.

The corporate bonds are stated at amortised cost. Interest is payable once every six months.

The corporate bonds recognised in the consolidated statement of financial position are calculated as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	1,595,052	1,590,465
Add: Interest expenses	93,174	94,425
Less: Interest paid	(88,551)	(89,838)
At end of the year	1,599,675	1,595,052
Less: Current portion due within 1 year	(1,599,675)	–
Non-current portion	–	1,595,052

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 38. CORPORATE BONDS, MEDIUM-TERM AND SHORT-TERM BONDS PAYABLE (Continued)

### Medium-term bonds

As approved by the National Association of Financial Market Institutional Investors [2016] No. MTN378, the Company issued medium-term bonds with the principal amounts of RMB600 million and RMB500 million on 11 August 2017 and 18 August 2017 respectively. The bonds mature in 3 years and bear interest at fixed interest rates 4.88% per annum and 4.85% per annum respectively.

The medium-term bonds are stated at amortised cost. Interest is payable once a year.

The medium-term bonds recognised in the consolidated statement of financial position are calculated as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	–	–
Issued during the year	1,100,000	–
Add: Interest expense	13,796	–
Less: Interest payable	(20,997)	–
	<hr/>	
At end of the year(non-current bonds portion)	<b>1,092,799</b>	–

### Short-term bonds

In September 2016, as approved by the National Association of Financial Market Institutional Investors [2016] No. SCP251, the Company issued short-term bonds with an aggregate principal amount of RMB300 million on 23 September 2016. The bonds mature in 270 days and bear interest at a benchmark interest rate (based on the National Interbank Funding Center released interest rate) plus an interest margin of 2.90% per annum. The 2016-short-term bond was matured and repaid in June 2017.

In February 2017, as approved by the National Association of Financial Market Institutional Investors [2016] No. SCP251, the Company issued three short-term bonds. The principal amounts of these three 2017-short-term bonds are RMB500 million issued on 23 February 2017 at a fixed interest rate 4.43% per annum for a term of 181 days; RMB500 million issued on 16 August 2017 at a fixed interest rate 4.63% per annum for a term of 1 year; and RMB500 million on 24 November 2017 at a fixed interest rate 5.39% per annum for a term of 270 days. One of the 2017-short-term bonds of amount RMB500 million was matured and repaid in August 2017.

The short-term bonds are stated at amortised cost. Interest is payable at due day.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 38. CORPORATE BONDS, MEDIUM-TERM AND SHORT-TERM BONDS PAYABLE (Continued)

### Short-term bonds (Continued)

The short-term bonds recognised in the consolidated statement of financial position are calculated as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	302,417	–
Issued during the year	1,500,000	300,000
Repayment of short-term bond	(800,000)	–
Add: Interest expense	24,920	2,417
Less: Interest paid	(17,359)	–
	<hr/>	<hr/>
At end of the year (current portion)	<b>1,009,978</b>	302,417

## 39. TRADE PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables		
– Shanghai Gas Group	745,996	738,468
– Third parties	517,613	551,061
	<hr/>	<hr/>
	<b>1,263,609</b>	1,289,529

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 39. TRADE PAYABLES (Continued)

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	1,210,918	1,275,151
1 to 2 years	42,026	7,432
2 to 3 years	3,900	244
Over 3 years	6,765	6,702
	<b>1,263,609</b>	<b>1,289,529</b>

## 40. OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
<b>Current portion</b>		
Deposits received, other payables and accruals	566,969	758,815
Amount due to Shanghai Gas Group	20,091	20,091
Receipt in advance	142,731	133,017
Salary payables	73,716	81,697
Interest payables	26,797	2,563
Dividend payables	911	911
Deferred government grants	5,382	272
	<b>836,597</b>	<b>997,366</b>
<b>Non-current portion</b>		
Amount due to Shanghai Gas Group	37,310	37,310
Finance lease deposit received	158,039	130,685
Deferred government grants	147,799	107,578
	<b>343,148</b>	<b>275,573</b>
	<b>1,179,745</b>	<b>1,272,939</b>

Other payables are non-interest-bearing.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 41. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
At beginning of the year	1,327,471	1,281,482
Additions	225,006	264,101
Released to profit or loss	(222,149)	(218,112)
	<b>1,330,328</b>	<b>1,327,471</b>
Analysed into:		
Current	212,693	210,633
Non-current	1,117,635	1,116,838
	<b>1,330,328</b>	<b>1,327,471</b>

Deferred income represents the fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network. These fees are received upfront and revenue is recognised over ten years.

As at 31 December 2017, the deferred income included an amount of RMB139,434,000 (2016: RMB139,434,000) which was related to the balance of fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network at the time when the 50% equity interests of Shanghai Dazhong Gas was transferred from Shanghai Municipal Assets Management Company to the Company pursuant to a share transfer agreement in 2001. This balance remained unsettled as there was a dispute as to the ownership of such balance and the related interest income of RMB8,944,000 (2016: RMB8,944,000) which was accounted for as "other payables".

## 42. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2017 RMB'000	2016 RMB'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits less recognised losses	287,854	289,334
Progress billings	(929,199)	(807,145)
	<b>(641,345)</b>	<b>(517,811)</b>
Represented by:		
Due to customers included in current liabilities	<b>(641,345)</b>	<b>(517,811)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 43. EMPLOYEE DEFINED BENEFITS

One of the subsidiaries of the Company pays supplementary pension subsidies and other post-employment obligations to its retired employees in the PRC. In addition, the Group was committed to make periodic benefits payments to certain former employees who were terminated or early retired in accordance with various employee benefit scheme adopted by the Group.

The plan exposes the Group to actuarial risks such as interest rate risk, benefit risk and staff turnover rate risk.

**Interest risk** The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability.

**Benefit risk** The present value of the defined benefit plan obligation is calculated by reference to the future benefits of plan participants. As such, an increase in the benefits of the plan participants will increase the plan liability.

**Staff turnover rate risk** The present value of the defined benefit plan obligation is calculated by reference to the future staff turnover rate of plan participants. As such, an increase in the average staff turnover of the plan participants will increase the plan liability.

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2017 was carried out by an independent firm of actuaries, Towers Watson, which is a global advisory, broking and solutions company. The present value of the defined benefit obligations, and the related current service cost and past cost were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2017	2016
Discount rate	4.00%	3.50%
Early-retiree's salary and supplemental benefit inflation rate	8.00%	8.00%
Resignation staff turnover rates	0.00%	0.00%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 43. EMPLOYEE DEFINED BENEFITS (Continued)

Amounts recognised in profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

	2017 RMB'000	2016 RMB'000
<b>Cost</b>		
Service cost	(752)	–
Current service cost	533	577
Interest cost	1,405	1,226
	<hr/>	<hr/>
Components of defined benefit costs recognised in profit or loss	1,186	1,803
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Re-measurement on the net defined benefit obligations:		
Actuarial gain arising from experience adjustments	(3,766)	(558)
	<hr/>	<hr/>
Components of defined benefit costs recognised in other comprehensive income	(3,766)	(558)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total	<b>(2,580)</b>	1,245

The expense for the year is included in the employee benefits expense in profit or loss. The re-measurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	2017 RMB'000	2016 RMB'000
Present value of unfunded defined benefit obligations	36,715	41,217
	<hr/>	<hr/>
Net liability arising from defined benefit obligations	36,715	41,217
Less: Amount due within one year	(1,977)	(2,130)
	<hr/>	<hr/>
Amount due after one year	<b>34,738</b>	39,087

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 43. EMPLOYEE DEFINED BENEFITS (Continued)

Movements in the present value of the retirement and supplemental benefit obligations in the year were as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	41,217	42,017
Current service cost	533	577
Interest cost	1,405	1,226
Re-measurement (gains)/losses:		
Actuarial gain arising from experience adjustments	(3,766)	(558)
Benefits paid	(3,214)	(2,045)
At end of the year	<b>36,175</b>	41,217

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, benefit rate and staff turnover rate. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on benefit obligation increases (decreases) by 1%, the defined benefit obligation would decrease by RMB4,190,000 (2016: RMB4,826,000) (increase by RMB5,209,000 (2016: RMB6,035,000)) for the year ended 31 December 2017.
- If the benefit rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB94,000 (2016: RMB108,000) (decrease by RMB131,000 (2016: RMB151,000)) for the year ended 31 December 2017.
- If the staff turnover rate increases by 1%, the defined benefit obligation would increase by RMB809,000 (2016: RMB966,000) for the year ended 31 December 2017.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligations liability recognised in the consolidated statement of financial position.

There was no change in the method and assumptions used in preparing the sensitivity analysis from prior year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 43. EMPLOYEE DEFINED BENEFITS (Continued)

The average duration of the defined benefit obligation as at 31 December 2017 is 30 (2016: 30) years. This number can be analysed as follows:

	2017	2016
Civil retirees	4.1 years	5.1 years
Retired members	22.0 years	22.3 years
Current staff	44.2 years	42.7 years

## 44. PROVISION FOR RESTORATION

	2017 RMB'000	2016 RMB'000
At beginning of the year	19,295	19,486
Add: Acquired from business combination	6,122	–
Add: Provision	7,143	6,093
Less: Disposal of subsidiaries	–	(5,379)
Less: Written back	–	(905)
At end of the year	<b>32,560</b>	19,295

The provision for restoration costs represented director's estimated assets retirement obligations relating to the wastewater treatment operation and public infrastructure projects.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 45. SHARE CAPITAL

	Number of A shares	Number of H shares	Total Number of ordinary shares	Authorised shares RMB'000	Issued and paid shares RMB'000
As 1 January 2016	2,467,304,675	–	2,467,304,675	2,467,305	2,467,305
Issue of H shares at RMB1 per share (note i)	–	435,400,000	435,400,000	435,400	435,400
Transfers of A shares to H shares (note i)	(43,540,000)	43,540,000	–	–	–
As 31 December 2016 and 1 January 2017	<b>2,423,764,675</b>	<b>478,940,000</b>	<b>2,902,704,675</b>	<b>2,902,705</b>	<b>2,902,705</b>
Issue of H shares at RMB1 per share (note ii)	–	49,730,000	49,730,000	49,730	49,730
Transfers of A shares to H shares (note ii)	(4,973,000)	4,973,000	–	–	–
At 31 December 2017	<b>2,418,791,675</b>	<b>533,643,000</b>	<b>2,952,434,675</b>	<b>2,952,435</b>	<b>2,952,435</b>

Notes:

- (i) On 5 December 2016, the Company successfully listed on the Main Board of SEHK and issued 435,400,000 new shares of H shares at offering price of HKD3.60 per H share and in the meantime, converted 43,540,000 A shares to 43,540,000 H shares. As at result, the Company has increased an aggregated 478,940,000 H shares and decreased 43,540,000 A shares immediately after the completion of the transaction. As at 31 December 2016, the Company had 478,940,000 H shares and 2,423,764,675 A shares respectively. The H shares rank pari passu in all respects with the existing A shares including the rights to receive all dividends and distribution declared and made.
- (ii) On 9 January 2017, 49,730,000 H shares were issued by the Company pursuant to the partial exercise of over-allotment option and 4,973,000 H shares were converted from the Company's A shares transferred to National Council for Social Security Fund of the PRC in accordance with the relevant PRC regulations regarding reduction of state-owned shares upon the exercise of the partial over-allotment option. As a result, the Company has increased an aggregated 54,703,000 H shares and decreased 4,973,000 A shares immediately after the completion of the transaction. As at 31 December 2017, the Company has 533,643,000 H shares and 2,423,764,675 A shares respectively.

The H shares rank pari passu in all respects with the existing A shares including the rights to receive all dividends and distribution declared and made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 46. RESERVES

### Company level

	Capital reserve (note (a)) RMB'000	Statutory reserve (note (b)) RMB'000	Investment revaluation reserve (note (d)) RMB'000	Other reserve (note (e)) RMB'000	Retained earnings (note (f)) RMB'000	Reserve total RMB'000
At 1 January 2016	65,517	427,962	242,822	1,519,529	384,585	2,640,415
Profit for the year	–	–	–	–	342,759	342,759
Other comprehensive income for the year:						
Share of other comprehensive income of associates	–	–	–	(286,409)	–	(286,409)
Change in fair value of available for sale financial assets	–	–	(82,440)	–	–	(82,440)
Total comprehensive income for the year	–	–	(82,440)	(286,409)	347,776	(26,090)
Issue of H shares (note 45(i))	882,191	–	–	–	–	882,191
2015 final dividend paid	–	–	–	–	(148,038)	(148,038)
Appropriation to statutory reserve	–	34,276	–	–	(34,276)	–
Others	(2,863)	–	–	–	–	(2,863)
At 31 December 2016 and 1 January 2017	<b>944,845</b>	<b>462,238</b>	<b>160,382</b>	<b>1,233,120</b>	<b>545,030</b>	<b>3,345,615</b>
Profit for the year	–	–	–	–	379,353	379,353
Other comprehensive income for the year:						
Share of other comprehensive income of associates	–	–	–	(75,886)	–	(75,886)
Change in fair value of available for sale financial assets	–	–	(160,382)	–	–	(160,382)
Total comprehensive income for the year	–	–	(160,382)	(75,886)	379,353	143,085
Issue of ordinary H shares (note 45(ii))	102,793	–	–	–	–	102,793
2016 final dividend paid (note 18)	–	–	–	–	(177,146)	(177,146)
Appropriation to statutory reserve	–	37,935	–	–	(37,935)	–
Others	–	–	–	(30,775)	–	(30,775)
At 31 December 2017	<b>1,047,638</b>	<b>500,173</b>	<b>–</b>	<b>1,126,459</b>	<b>709,302</b>	<b>3,383,572</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 46. RESERVES (Continued)

Notes:

- (a) Capital reserve:  
The amount represents capital contribution in excess of nominal value of share capital.
- (b) Statutory reserve:  
The amount represents the legal requirement for certain level of operating funds set aside from retained earnings for operating use.
- (c) Exchange reserve:  
The amount represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.
- (d) Investment revaluation reserve:  
The amount represents cumulative net gains and losses recognised from revaluation of available-for-sale financial assets.
- (e) Other reserve:  
The amount represents net amount from share of other comprehensive income of associates.
- (f) Retained earnings:  
Cumulative net gains and losses recognised in profit or loss.

## 47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December	
Notes		2017	2016
		RMB'000	RMB'000
<b>Non-current assets</b>			
		54,525	20,506
		41,008	42,360
		2,264	213
	25	3,412,199	2,973,115
		4,355,781	3,631,283
		69,227	326,694
Total non-current assets		<b>7,935,004</b>	6,994,171
<b>Current assets</b>			
		332,118	15,877
		–	12,549
	25	981,810	593,673
		2,337	36
		3,612,713	2,112,019
Total current assets		<b>4,928,978</b>	2,734,154

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

		As at 31 December	
		2017	2016
		RMB'000	RMB'000
	Notes		
<b>Current liabilities</b>			
Borrowings		<b>1,959,300</b>	799,300
Corporate bonds and short-term bonds payable		<b>2,609,653</b>	302,417
Other payables		<b>165,616</b>	294,458
Amounts due to subsidiaries	25	<b>699,409</b>	434,151
Total current liabilities		<b>5,433,978</b>	1,830,326
<b>Net current (liabilities)/assets</b>		<b>(505,000)</b>	903,828
<b>Total assets less current liabilities</b>		<b>7,430,004</b>	7,897,999
<b>Non-current liabilities</b>			
Corporate bonds and medium-term bonds payable		<b>1,092,799</b>	1,595,052
Deferred tax liabilities		<b>1,198</b>	54,627
Total non-current liabilities		<b>1,093,997</b>	1,649,679
<b>Net assets</b>		<b>6,336,007</b>	6,248,320
<b>Equity</b>			
Share capital	45	<b>2,952,435</b>	2,902,705
Reserves	46	<b>3,383,572</b>	3,345,615
<b>Total equity</b>		<b>6,336,007</b>	6,248,320

On behalf of the directors

Director

Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 48. COMMITMENTS

### (a) Operating lease commitments

#### *Operating leases – lessee*

Except for the prepaid premium for land leases, the Group leases certain of its land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 1 to 15 years.

The total future minimum lease payments under non-cancellable operating leases, which the Group is a lessee are as follows:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Within one year	<b>4,853</b>	694
In the second to fifth year	<b>2,909</b>	2,980
After the fifth year	<b>4,199</b>	5,899
	<b>11,961</b>	9,573

#### *Operating leases – lessor*

As the end of each reporting date, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of the investment properties and equipment are as follows:

	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Within one year	<b>4,808</b>	5,662
In the second to fifth year	<b>10,548</b>	16,563
After the fifth year	<b>20,129</b>	18,302
	<b>35,485</b>	40,527

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 48. COMMITMENTS (Continued)

### (b) Capital commitments

Capital commitments not provided for in the consolidated financial statements were as follows:

	Notes	2017 RMB'000	2016 RMB'000
In respect of:			
Share transfer agreement	(i)	51,678	51,678
Capital injection in subsidiaries	(ii), (iii), (iv)	82,671	10,000

Notes:

- (i) A subsidiary of the Group, namely Shanghai Dazhong Group Capital Equity Investment Co., Ltd. ("the Buyer"), engaged in a share transfer agreement with 上海東方傳媒集團有限公司 ("the Seller") on 29 April 2010 to acquire the partial of the shares held by the Seller of 華人文化產業股權投資(上海)中心有限合夥 at the consideration price of RMB250,000,000. According to the condition of the mutual agreement, the full amount should be paid upon the completion of the registration of the transfer of shares. As at 31 December 2016 and 2017, the Group in aggregate has paid RMB198,322,000 by nine instalments and all shareholders have paid according to the equity interest proportion. The remaining balance of RMB51,678,000 will be paid together with other shareholders in accordance with equity interest proportion for further investment needs.
- (ii) On 12 July 2016, the Company set up a new company in Shanghai namely Shanghai Zhongong Information Service Co., Ltd. with registered capital of RMB10,000,000. During the year ended 31 December 2017, the required capital injection was completed.
- (iii) On 22 December 2017, the Group set up a new subsidiary in Vietnam namely Dazhong (Vietnam) Corporation Limited with registered capital of USD5,000,000 (equivalent to RMB32,671,000). As at 31 December 2017, the registered Capital of this subsidiary was not yet paid up.
- (iv) During the year ended 31 December 2017, the Company's 50% subsidiary, Shanghai Dazhong Gas increased the registered capital by RMB200,000,000, which RMB100,000,000 was paid up as at 31 December 2017. The remaining amount of RMB100,000,000 will be paid by the Company together with other shareholders in 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 49. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with its related parties as follows:

	2017 RMB'000	2016 RMB'000
<i>Shanghai Dazhong Financial Leasing Co., Ltd.</i>		
Acquisition of equity interest of non-controlling interests (note 25)	4,035	–
<i>Shanghai Dazhong Business Management Co., Ltd.</i>		
Acquisition of equity interest of non-controlling interests (note 25)	–	3,053
<i>Shanghai Gas Group</i>		
Purchase of piped gas (excluded VAT)	2,378,367	2,366,954
Rental expenses	4,960	4,724
<i>Associates</i>		
Interest income (excluded VAT)	–	4,119
Rental expenses	4,671	4,437
Disposal of available-for-sale financial assets	–	40,949
Acquisition of a subsidiary (note 10)	–	98,114
<i>Shanghai Gas Group's affiliate</i>		
Interest expense	11,799	11,398

The above transactions were conducted in the normal course of the Group's business and were determined based on mutually agreed prices and terms with reference to the market price at the time of the transaction.

### Key management remuneration

The Group considered the executive directors and senior managements as key management.

	2017 RMB'000	2016 RMB'000
Basic salaries and other benefits	15,928	18,254
Pension scheme contributions	–	1,460
Total compensation paid to key management personnel	15,928	19,714



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 49. RELATED PARTY TRANSACTIONS (Continued)

The emoluments paid or payable to 3 (2016: 2) senior managements were within the following bands:

	2017 No. of individuals	2016 No. of individuals
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	2	–

As the end of each reporting date, apart from the disclosures already made in investments in associates, borrowings, trade and other payables in notes 26, 37, 39 and 40 respectively, the balances with its related parties are listed as follows:

	Notes	2017 RMB'000	2016 RMB'000
<i>Prepayment</i>			
Dazhong Building	(i)	140	145
<i>Dividend receivable</i>			
Shanghai Xuhui Onlly Mirco-credit	(ii)	876	876
Shanghai Hangxin	(iii)	8,145	–
<i>Other receivables</i>			
Shanghai Xuhui Onlly Micro-credit	(ii)	320	345
Pizhou Fountainhead	(iv)	–	143
Shanghai Gas City North Sale Co., Ltd	(v)	–	6,372
Xuzhou Fountainhead	(vi)	–	12,074
Shanghai Shihe	(vii)	322,218	–
<i>Other payables</i>			
Pizhou Fountainhead	(iii)	–	5,491

Notes:

- (i) Shanghai Dazhong Building Co., Ltd (“Dazhong Building”) is a subsidiary of an associate of the Group, namely Dazhong Transportation Group.
- (ii) Shanghai Xuhui Onlly Micro-credit is an associate of the Group.
- (iii) Shanghai Hangxin is an associate of the Group.
- (iv) Pizhou Fountainhead is an associate of the Group in 2016.
- (v) Shanghai Gas City North Sale Co., Ltd. is an affiliate of Shanghai Gas Group.
- (vi) Xuzhou Fountainhead is an associate of the Group.
- (vii) Shanghai Shihe is an associate of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 49. RELATED PARTY TRANSACTIONS (Continued)

### Financial guarantee

Guarantees given by the Company to certain associates in connection with bank loans granted to them as at 31 December 2017 was nil (2016: RMB14,861,000).

## 50. FINANCIAL INSTRUMENTS BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	2017 RMB'000	2016 RMB'000
<i>Financial assets</i>		
<b>Financial assets at fair value through profit or loss – held for trading</b>		
– Listed investments	21,178	74,103
<b>Loans and receivables</b>		
– Trade and bills receivables	456,094	799,277
– Lease receivables	1,349,253	990,932
– Amount due from grantor	618,368	653,216
– Amount due from an associate	318,996	–
– Loan receivables	137,507	224,885
– Other receivables	73,458	67,592
– Pledged deposits	219,473	159,000
– Cash and cash equivalents	4,912,508	3,258,733
<b>Available-for-sale financial assets</b>		
– Listed investments	133,441	478,317
– Unlisted investments	759,803	313,672
– Investment-linked deposits	175,000	160,000
<i>Financial liabilities</i>		
<b>Financial liabilities measured at amortised cost</b>		
– Borrowings	3,835,895	2,322,826
– Trade payables	1,263,609	1,289,529
– Other payables	884,005	1,032,072
– Corporate bonds, medium-term and short-term bonds payable	3,702,452	1,897,469

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 50. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

### (a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include amounts due from/to subsidiaries, amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables, other payables and corporate bonds, mid-term and short-term bonds payable.

In the opinion of the directors, the carrying value of amount due from/to subsidiaries, amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables and corporate bonds, mid-term and short-term bonds payable are approximated to fair value.

### (b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

### (c) Fair value and fair value hierarchy of financial instruments of the Group

	Fair value measurement using Quoted prices in active markets (Level 1)	
	2017 RMB'000	2016 RMB'000
Available-for-sale listed investments	133,441	478,317
Equity and debt investments at fair value through profit or loss	21,178	74,103

## 51. FINANCIAL RISK

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business.

The Group's principal financial instruments mainly include trade and bills receivables, pledged deposits cash and cash equivalents and trade and bills payables, which arise directly from its operations. The Group has other financial assets and liabilities such as amounts due from/to associates, interest-bearing bank borrowings, deposits and other receivables, and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 51. FINANCIAL RISK (Continued)

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board reviews and agrees policies for managing each of the risks which are summarised below:

### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank loan and other borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk. With all other variable held constant, the Group's profit after tax and equity is affected through the impact on floating rate borrowings, as follows:

	Increase/(decrease) on profit after tax and equity	
	2017 RMB'000	2016 RMB'000
Increase by 25 basis points	11,514	6,506
Decrease by 25 basis points	(11,514)	(6,506)

### Foreign currency risk

The Group's businesses are located in the PRC and the majority of transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of each of the year to a reasonably possible change in the RMB/USD and RMB/HKD exchange rates, with all other variables held constant, of the Group's profit after tax and equity.

	Increase/(decrease) on profit after tax and equity	
	2017 RMB'000	2016 RMB'000
<b>RMB/USD</b>		
Strengthened 5%	(4,830)	8,093
Weakened 5%	4,830	(8,093)
<b>RMB/HKD</b>		
Strengthened 5%	80,480	(76,894)
Weakened 5%	(80,480)	76,894

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis; therefore, the Group's exposure to bad debts is not significant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 51. FINANCIAL RISK (Continued)

### Credit risk (Continued)

The credit risk of the Group's other financial assets, the composition of which is disclosed in note 27, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk exist when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at 31 December 2017, based on the contractual undiscounted payments, was as follows:

	On demand RMB'000	Within 1 year RMB'000	Within 2 to 5 years RMB'000	Total RMB'000
<b>At 31 December 2017</b>				
Interest-bearing bank borrowings	–	3,102,892	940,705	4,043,597
Corporate bonds payable	–	1,601,317	–	1,601,317
Medium-term bonds payable	–	56,294	1,191,055	1,247,349
Short-term bonds payable	–	1,033,296	–	1,033,296
Trade and bills payables	–	1,263,609	–	1,263,609
Other payables	688,484	–	195,349	883,833
	<b>688,484</b>	<b>7,057,408</b>	<b>2,327,109</b>	<b>10,073,001</b>
<b>At 31 December 2016</b>				
Interest-bearing bank borrowings	–	1,976,745	417,355	2,394,100
Corporate bonds payable	–	89,394	1,596,524	1,685,918
Short-term bonds payable	–	306,525	–	306,525
Trade and bills payables	–	1,289,529	–	1,289,529
Other payables	864,077	–	167,995	1,032,072
	<b>864,077</b>	<b>3,662,193</b>	<b>2,181,874</b>	<b>6,708,144</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 52. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by capital. The Group's net debt consists of interest-bearing bank loans and other borrowings and related party loans, less cash and cash equivalents. Capital represents total equity.

## 53. NOTES SUPPORTING CASH FLOW STATEMENT

### Reconciliation of liabilities arising from financing activities:

	<b>Interest payable</b> (note 40) RMB'000	<b>Borrowings</b> (note 37) RMB'000	<b>Corporate bonds, medium and short-term bonds payable</b> (note 38) RMB'000
At 1 January 2017	2,563	2,322,826	1,897,469
Changes from cash flows:			
Proceeds from new bank loans	–	3,446,401	–
Repayment of bank loans	–	(1,933,332)	–
Interest paid	(156,447)	–	(126,907)
Proceeds from issue of new medium-term bonds	–	–	1,100,000
Proceeds from issue of new short-term bonds	–	–	1,500,000
Repayment of short-term bonds	–	–	(800,000)
Total changes from financing cash flows:	<u>(156,447)</u>	<u>1,513,069</u>	<u>1,673,093</u>
Other changes:			
Interest expenses	<u>180,681</u>	–	<u>131,890</u>
Total other changes	<u>180,681</u>	–	<u>131,890</u>
At 31 December 2017	<u>26,797</u>	<u>3,835,895</u>	<u>3,702,452</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

## **54. SUBSEQUENT EVENTS**

On 25 May 2015, the Company held the first meeting of the tenth session of the Board and the Proposal on the Issuance of Onshore and Offshore Debt Financing Instruments (《關於發行境內外債務融資工具的預案》) was considered and approved. On 14 July 2017, the Company has convened the 2017 First Extraordinary General Meeting and agreed the public issuance of corporate bonds not exceeding RMB1.8 billion and the plan of bond issuance was considered and approved. On 30 October 2017, the Company received the “Reply in relation to the Approval for the Public Issue of Corporate Bonds to Qualified Investors by Shanghai Dazhong Public Utilities (Group) Co., Ltd.” (Zheng Jian Xu Ke [2017] No.1928) from China Securities Regulatory Commission, approving the Company to issue the corporate bonds in public to qualified investors with an aggregate face value of not more than RMB1,690 million. On 15 March 2018, the first tranche of corporate bond for the year 2018 of RMB0.5 billion was successfully issued.

## **55. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements for the year ended 31 December 2017 were approved for issue by the directors on 29 March 2018.



上海大眾公用事業（集團）股份有限公司

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