2017 ANNUAL REPORT

Shanghai Electric Group Company Limited

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

www.shanghai-electric.com

Performance Highlights

Revenue for 2017 was

¥ 79,544 million

a decrease of

10.13%

year-on-year

Profit attributable to owners of the Company for 2017 reached

¥ 2,627 million

an increase of

11.55%

year-on-year

Basic earnings per share for 2017 were

¥ 18.72 cents

an increase of

9.22%

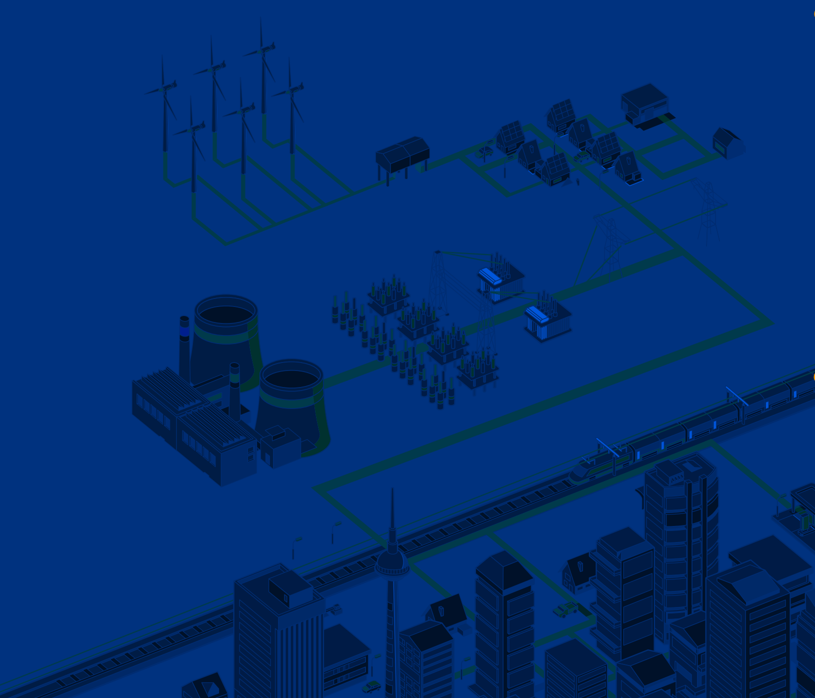
year-on-year

The Board proposed to declare a final dividend of

¥ 9.195 cents

per share for 2017

Contents



Chairman's Statement

CHAIRMAN OF THE BOARD AND CEO
Zheng Jianhua

As China has entered the post-industrial era, its manufacturing sector faces overcapacity. The continuous evolution of the Internet of Things, cloud platforms, big data, digitalization and artificial intelligence will bring profound changes to the traditional manufacturing industry. In such domestic and global contexts, Shanghai Electric focused on its key tasks arranged at the beginning of the year, deepened reform and sped up in innovation, thereby maintaining its growth momentum. During the reporting period, the Group achieved a turnover of RMB79,544 million, representing a year-on-year decrease of 10.13%, which is mainly due to the greater extent year-on-year decrease in revenue from coal-fired power generation equipment and its ancillary businesses due to the effects of macro policies during the reporting period. During the reporting period, the gross profit margin of the Group reached 19.9%, representing a year-on-year increase of 0.9 percentage point, which is mainly attributed to the higher proportion of revenue from financial and other businesses with higher gross profit margin. In addition, thanks to the improved profitability of the Group' s financial business, net profit attributable to shareholders of the parent company amounted to RMB2,627 million during the reporting period, representing a year-on-year increase of 11.55%. The earnings per share were RMB18.72 cents in 2017, representing a year-on-year increase of 9.22%. The return on net assets was 5.3%, representing a year-on-year increase of 0.1 percentage point. The Board proposed to declare a final dividend of RMB9.195 cents per share this year and the total amount of dividend represents approximately 52% of net profit attributable to shareholders of the parent company in 2017.

During the reporting period, our core industrial technologies and strengths were enhanced continuously. The R&D project on the Design, Manufacturing and Application of High-Efficiency Cutting Tools (高效切削刀具設計、製備與應用) won 2017 National Science and Technology Progress Award (2017年國家科技進步獎), R&D project on the Development of High-Efficiency Ultra-Supercritical Boiler with 623℃ Reheat Steam Temperature (再熱汽温623℃高效超超臨界鍋爐研製) won the first prize of the Scientific and Technological Award of China Machinery Industry (中國機械工業科學技術獎) in 2017, and R&D projects on the 730MW Shock-Resistant Water-Hydrogen Cooled Generator for Isolated Grid (滿足孤網要求抗衝擊型730MW 級水氫冷發電機), the 1GW Power Generator for Inland Transportation and Internationalization (滿足內陸運輸及國際化需求的百萬千瓦級發電機), the Study and Improvement on Standards of Key Large Forging Components for Power Plant Thermal Power Equipment (火電設備用關鍵大型鑄鍛件系列標準研究和提升) and the Study and Manufacturing of Power Plant Green Island and Equipment with Low Low-Temperature Dust Removal System (基於低低温除塵系統的電廠環保島及裝備研製) won second prizes of the Scientific and Technological Award of China Machinery Industry in 2017.

During the reporting period, the Company obtained new orders in the amount of RMB100.46 billion, representing a year-on-year decrease of 17.8%. In particular, new orders for new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment and modern services accounted for 17.2%, 24.6%, 39.5% and 18.7% of the total new orders, respectively. As at the end of the reporting period, the Company' s orders on hand amounted to RMB226.92 billion (with orders in the aggregate amount of RMB82.44 billion not yet coming into effect), representing a year-on-year decrease of 7.1%. Of the total orders on hand, orders for new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment and modern services accounted for 14.2%, 49.3%, 5.2% and 31.3%, respectively.

New Energy and Environmental Protection Equipment

During the reporting period, the domestic nuclear power market saw a steady development, but the competition in the domestic nuclear power equipment manufacturing industry was increasingly intensified. As a leader in the domestic nuclear power nuclear island equipment industry, Shanghai Electric closely centered on the nuclear power equipment industry chain and sped up in transformation to seek breakthroughs. It advanced the production of nuclear island equipment in a well- organized way based on the delivery schedule of orders on hand. We are actively advancing the intelligent manufacturing of nuclear power equipment to transform the production model of nuclear power products from "traditional discrete manufacturing" into "digitalized high-end manufacturing" through the design on the seamless connection of 3D models and manufacturing processes.

For wind power business, we have secured a number of orders for offshore wind power projects, including a 132MW project in Putuo, Zhoushan, Zhejiang, a 100MW project in Lingang, Shanghai and a 70MW project in Sanchuan, Fujian. During the reporting period, we completed the construction of an offshore wind farm with 38 units of 4.0MW generators in Rudong, Jiangsu, which is the wind farm with the largest installed capacity completed in Asia so far. The Company' s first 6MW offshore wind turbine was successfully installed in Xinghua Bay, Fujian. All these consolidated our leading advantage in the offshore wind power market. During the reporting period, we received new wind power equipment orders of RMB11.28 billion, representing a year-on-year decrease of 13.36%. Wind power equipment orders on hand by the end of the reporting period amounted to RMB15.17 billion, representing a year-on-year increase of 33.54%. We are striving to be a globally leading provider of services covering the whole life cycle of wind power equipment and transform from a wind power equipment manufacturer to a provider of solutions and services, from a market follower to an industry leader and from localization to internationalization through innovations in technology, business and profit models. Our cloud computing-based and big data-based remote system management platform, "Feng Yun" system, had been put online, creating a new service model for wind power stations in the technological revolution era. "Feng Yun 1.0", an intelligent cloud-based maintenance platform of Shanghai Electric, has successfully completed remote access for more than 60 wind farms. In the future, we will continue to increase our technical input in artificial intelligence for "Feng Yun" system.

During the reporting period, our environmental protection business had set up a comprehensive industry chain covering domains of "engineering + design, technology + product, operation + service". We focused on four main businesses, namely power station environment protection, solid waste treatment, water treatment and distributed energy. We actively synergized with the national strategy of "building a beautiful China" and vigorously developed distributed sewage treatment products in rural areas. In 2017, we successfully won the bidding for domestic sewage treatment facilities for 38,000 households in the rural areas in Chongming District, Shanghai. During the reporting period, we acquired new orders for environmental protection equipment of RMB4.70 billion, representing a year-on-year increase of 67.3%. At the end of the reporting period, our orders on hand for environmental protection equipment amounted to RMB4.22 billion, representing a year-on-year increase of 69.5%. Both hit new record highs.

During the reporting period, new energy and environmental protection equipment segment recorded revenue of RMB11,018 million, representing a year-on-year decrease of 17.73%, of which revenue from nuclear power nuclear island equipment showed a year-on-year decrease as no newly approved nuclear power projects commenced construction in recent years. Due to the impact from National Wind Power Investment Monitoring and Warning, the installation of onshore wind power units slowed down significantly in 2017, which resulted in declines in revenue from the Group' s wind turbines business during the reporting period. Meanwhile, the environmental protection business expanded quickly and recorded higher revenue from the corresponding period of the previous year. During the reporting period, the gross profit margin of the segment reached 14.6%, representing a year-on-year increase of 0.2 percentage point. Due to the expected lower gross profit margin of certain projects under construction, the gross profit margin of environmental protection equipment declined by a certain extent.

High Efficiency and Clean Energy Equipment

During the reporting period, given the adjustment of macro policies and the declining demand in domestic thermal power market, increasingly intensified market competition and persistent overcapacity, we consistently improved our business structure and adjusted our marketing strategy to enhance the profitability of thermal power products in a practical way. Further, we transformed from a "leading manufacturer" to an "integrated supplier" to create new advantages and build core competitiveness by providing domestic and overseas users with system solutions. During the reporting period, the Company acquired new orders for thermal power equipment of RMB9.60 billion, representing a year-on-year decrease of 47.77%. At the end of the reporting period, the Company' s orders for thermal power equipment on hand amounted to RMB82.20 billion, representing a year-on-year decrease of 15.43%. During the reporting period, we obtained orders for 2 sets of 1,000MW ultra-supercritical coal-fired units for Phase II of Guangdong Heyuan Power Plant, 1 set of 1,350MW ultra-supercritical coal-fired unit for Phase II of Anhui Pingshan Power Plant and 2 sets of 660MW coal-fired unit for Shaanxi Fanhai Hongdunjie Power Plant. Following the "One Belt, One Road" initiatives of the state and through the formulation of sound strategic plans for internationalization, we improved and boosted the technology, quality, services and standards of our products for export as well as our management capability on other overseas projects, thereby improving overseas customers' satisfaction and our overseas market shares and offsetting the impact of the declining demand in domestic coal-fired power market. For gas turbines, we worked together with Ansaldo through in-depth cooperation in aspects such as market expansion, technology transfer and technical collaboration and have established "Four Globalization Strategies" for the industry development of gas turbines, namely, globalized research and development platform, globalized manufacture base, globalized sales network and globalized service team. During the reporting period, we obtained the contract for the key equipment of 2 sets of E-class gas turbine combined cycle heat transfer unit (E級燃機聯合循環傳熱機組) for a natural gas-fired heat and power cogeneration project in Rongcheng, Shandong. We entered into a maintenance work contract for E-class heavy-duty gas turbines with CGN Wuhan Han-Neng Power Development Co., Ltd., which is the first equipment maintenance service contract we obtained as a non-original equipment manufacturer. During the reporting period, we further developed the "3+1" industry strategic planning for "high voltage technology, intelligence-based manufacturing, power electronics technology and engineering service" for our power transmission and distribution equipment business and continuously enhanced our industry capability level. The number of orders for power transmission equipment (35-110kV transformers) from State Grid Corporation of China in 2017 obtained by Wujiang Transformer Co., Ltd. helped it to rank the second among transformer unit companies across China. During the reporting period, we made a breakthrough in major client projects by winning the bid on the power transmission and distribution equipment general contract from Huali Microelectronics.

During the reporting period, high efficiency and clean energy equipment segment recorded revenue of RMB26,174 million, representing a year-on-year decrease of 6.87%, which was mainly attributed to the decline in revenue from coal-fired power generation equipment business and its ancillary businesses in the segment due to the effects of national macro policies during the reporting period. The gross profit margin of the segment reached 15.1%, representing a year-on-year decrease of 1.4 percentage points, which was mainly attributed to the declining gross profit margin of coal-fired power generation equipment and power transmission and distribution equipment caused by the hiking prices of raw materials. In addition, the relatively sufficient risk provisions made for coal-fired power generation equipment business during the reporting period resulted in slight losses in the operating profit from high efficiency and clean energy equipment segment.

Industrial Equipment

During the reporting period, due to the impact of factors such as rising prices of raw materials and overcapacity, the competition in the elevator market was increasingly fierce with intense competition seen in price, quality, delivery time, services and other aspects of the elevator industry. In response to the market situation and the increasing concentration of strategic customers, Shanghai Mitsubishi Elevator Co., Ltd ("SMEC") made greater effort in maintaining and developing relationships with major strategic customers. We continued to work closely with core strategic partners such as Wanda, Evergrande, China Overseas, Greenland, Country Garden, COSCO, Longfor, Forte, Luneng, Vanke, CITIC and Ronshine. The major projects we undertook included Greenland Centre Chengdu (成都綠地中心), Taizhou Tiansheng Center (台州天盛中心), Shanghai Henderson Xuhui Riverside (上海恒基徐匯濱江), Shanghai CMIG Bund Plaza (上海中民投外灘廣場), Shenzhen Shangsha City (深圳上沙城市), Hong Kong-Zhuhai-Macau Bridge Project (港珠澳大橋項目), Zhengzhou Metro Line 5 (鄭州地鐵5號線), Jinan Metro Line R1 (濟南市軌道交通R1線), Hengda Venice Resort (恒大海上威尼斯) and Evergrande Ocean Flower Island (恒大海花島). We continued to inject more "intelligence", "brainpower" and "wisdom" into products and services. SMEC had over 60,000 intelligent elevators under operation in 2017. SMEC continued to explore the development of service industrialization. In light of the rapid growth in demands for services from elevators in use, especially for the business of retrofit of obsolete elevators, SMEC took the business of retrofit of obsolete elevators as a breakthrough and created a new growth stream for our services. Revenue generated from SMEC's service business including installation, repairs and maintenance exceeded RMB5,200 million in 2017, representing over 28% of the total revenue from elevator business. Our Nedscheroef Company (內德史羅夫公司) is specialized in the production of automotive fasteners. During the reporting period, Nedscheroef acquired 90% equity interests in CP Tech GmbH Company, which has extensive design, development and manufacturing experience in the global automobile and racing car industry. The acquisition marked a significant step of Nedscheroef to transform from a specialized manufacturer of automotive fasteners into a high-end engineering company capable of involving itself in the automobile development programs of clients at an early stage, and reserved effective resources for Shanghai Electric to venture into new energy vehicle, automatic driving and other new industries. Our Broetje Company (寶爾捷公司) is a German supplier of aeronautical equipment and related automation system with a product portfolio covering the entire process chain for assembly of aero-structures and the related components and application solutions, offering complete assembly lines as well as fastening machines for all types of structured assemblies and final assemblies. Its major customers include large aircraft manufacturers such as Airbus SAS, the Boeing Company, etc. We are proactively helping Broetje to enter the domestic market for aviation industry, thus enhancing the technology capability level of the Company in the automation industry.

During the reporting period, industrial equipment segment recorded revenue of RMB33,570 million, representing a year-on-year increase of 3.56%, which was mainly attributed to the stable revenue growth in automation business during the reporting period. The gross profit margin of the segment was 20.3%, representing a year-on-year decrease of 1.5 percentage points, which was mainly attributed to the declining gross profit margin of elevators and electric motors businesses caused by the hiking prices of raw materials during the reporting period.

Modern Services

During the reporting period, we actively responded to the "One Belt, One Road" initiative, creatively developed "engineering + service", "engineering + investment" and other new business models and expanded integrated engineering business in power stations, power transmission and distribution, environmental protection and other industries to promote the equipment of Shanghai Electric "going global". We continued to develop our power plant engineering business at a steady pace. Devising upon the national initiative of "One Belt, One Road", we regarded over 50 countries and regions covered by the "One Belt, One Road" initiative as the core markets of our engineering industry. We have set up a new subsidiary in Pakistan and planned to extend our overseas sales network into South Africa, Malaysia, Turkey, Poland and Columbia, and actively promoted the construction of sales networks to achieve sales capacity in multiple regions. Regarding our power plant engineering business, we are developing new energy and distributed energy markets instead of focusing merely on the coal-fired market. We will also strive to facilitate the business model of "integrating business and finance" while enhancing the effort on project investment and project financing to increase market share. During the reporting period, we obtained the EPC project on a combined cycle power station in Pancevo, Serbia, which is the first power station project we undertook in Europe and the Balkan region. We continue to work consistently and intensively in African power transmission and distribution market, and have entered into an order in respect of the power supply project in Port of Doraleh, Djibouti with a power company in Djibouti, Africa during the reporting period. We also obtained an order for live-line wiring project for the secondary circuit of the power supply line in Ethiopia, which is our first live-line power transmission and distribution project obtained in overseas markets. During the reporting period, Shanghai Electric Finance Group has accelerated the development by adhering to three strategic subjects, namely "treasury with management and planning functionality, value-added financial service platform and becoming a growth engine with engagement in business that adhered to main business", which has basically established a worldwide coverage in respect of treasury management. We continued to promote innovation in financial services and businesses, expand value-added financial services and advance the construction of notes pools of the Group. We also focused on the development of overseas business of the Group, gave play to the function as an overseas platform for foreign exchange services and actively expanded the scope of import and export trade and financing services as well as financial services in free trade zone.

During the reporting period, modern services segment recorded revenue of RMB13,664 million, a year-on-year decrease of 23.42%, which was mainly attributed to the significant decline in revenue from EPC engineering business during the reporting period. The gross profit margin of the segment was 23.9%, representing a year-on-year increase of 6.9 percentage points, which was mainly attributed to the higher proportion of financial business in the segment.

Looking forward to the future, we will lead, gather and develop a consensus on the development of the Group with strong determination on aggressive reform, vigor and sense of urgency to accomplish the development vision and strategic development targets of the Group. We will continue to focus on advantageous business, optimize existing business and vigorously develop emerging business. We will follow the guideline of marketization, professionalization and internationalization, advance innovation-driven development and speed up thorough transformation, upgrading and development to catch up with internationally leading players. Furthermore, we will speed up in adjustment of industrial structure, establishment of global presence and multinational operation as well as the reform of and innovation in systems and mechanisms to join the team of globally leading enterprises at the soonest. We will lead a new round of great and leap-forward development of Shanghai Electric to make it a respected enterprise with strong competitiveness and profitability and constantly strive for an early realization of the "Electric Dream".

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

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

Zheng Jianhua
Chairman of the Board
Shanghai, PRC, 29 March, 2018

Corporate Profile

Corporate Information

Legal name of the Company (Chinese)	上海電氣集團股份有限公司
Abbreviated legal name of the Company (Chinese)	上海電氣
Legal name of the Company (English)	Shanghai Electric Group Company Limited
Abbreviated legal name of the Company (English)	Shanghai Electric
Company's legal representative	Zheng Jianhua
Company's authorized representatives	Zheng Jianhua　Huang Dinan (Resigned on 1 September 2017)
Company's alternative authorized representative	Li Chung Kwong Andrew (FCCA, FCPA, FCA, CIA)
Company Secretary	Li Chung Kwong Andrew (FCCA, FCPA, FCA, CIA)

Contact Person and Contact Details

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

Summary of Basic Information

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

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

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

Summary of the Company's Shares

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

Registrar and Transfer Office

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

H Shares: Computershare Hong Kong Investor Services Limited

Other Relevant Information

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

Five-year Financial Summary

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

Unit: '000,000 Currency: RMB

	2013	2014	2015 (Restated)	2016 (Restated)	2017
Revenue and Profit					
Revenue	78,795	78,486	87,441	88,507	**79,544**
Profit before tax	5,283	5,753	6,484	5,925	**5,365**
Tax	(1,073)	(934)	(1,434)	(1,283)	**(522)**
Profit for the year	4,210	4,819	5,050	4,642	**4,843**
Attributable to:					
Owners of the Company	2,393	2,727	2,314	2,355	**2,627**
Non-controlling interests	1,817	2,092	2,736	2,287	**2,216**
Dividend	957	753	-	-	**1,354**
Earnings per share attributable to ordinary equity holders of the Company					
Basic Profit for the year (cents)	18.66	20.74	18.04	17.14	**18.72**
Assets and Liabilities					
Non-current assets	27,822	34,248	40,285	48,927	**54,989**
Current assets	101,471	113,314	135,943	137,674	**144,357**
Current liabilities	(82,237)	(94,340)	(102,985)	(106,375)	**(111,320)**
Net current assets	19,234	18,974	32,958	31,299	**33,037**
Total assets less current liabilities	47,056	53,222	73,243	80,226	**88,026**
Non-current liabilities	(4,347)	(4,880)	(16,219)	(17,807)	**(17,304)**
Net assets	42,709	48,342	57,024	62,419	**70,722**
Equity attributable to owners of the Company	32,206	36,780	42,450	47,900	**55,537**
Non-controlling interests	10,503	11,562	14,574	14,519	**15,185**

Note: Comparative figures for 2015 and 2016 have been restated in accordance with the reporting requirements for business combination under common control.

Key Accounting Data and Financial Indicators

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

(in accordance with the HKFRS)

Unit: '000 Currency: RMB

Key accounting data	2017	2016 (Restated)	Change for the period over the corresponding period of the previous year (%)
Revenue	79,543,794	88,507,384	(10.13)
Profit before tax	5,365,249	5,925,353	(9.45)
Net profit attributable to owners of the Company	2,626,668	2,354,526	11.56
Net cash flows generated from operating activities	(7,525,017)	10,715,517	N/A
	At the end of 2017	At the end of 2016 (Restated)	Change as at the end of the period over the end of the period of the previous year (%)
Total assets	199,345,759	186,600,990	6.83
Equity attributable to owners of the Company	55,537,083	47,899,861	15.94
Key financial indicators	2017	2016 (Restated)	Change for the period over the corresponding period of the previous year (%)
Basic earnings per share (RMB/share)	0.19	0.17	11.76
Diluted earnings per share (RMB/share)	0.19	0.17	11.76
Weighted average net assets return rate (%)	5.32	5.25	Increased by 0.1percentage point
Net cash flows per share generated from operating activities (RMB/share)	(0.51)	0.80	N/A
	At the end of 2017	At the end of 2016 (Restated)	Change as at the end of the period over the end of the period of the previous year (%)
Net assets per share attributable to shareholders of the listed company (RMB/share)	3.56	3.32	7.23

Share Capital Structure

As at 31 December 2017	Number of shares	Approximate percentage of issued share capital
A shares	11,752,268,717	79.81%
H shares	2,972,912,000	20.19%
Total	14,725,180,717	100.00%

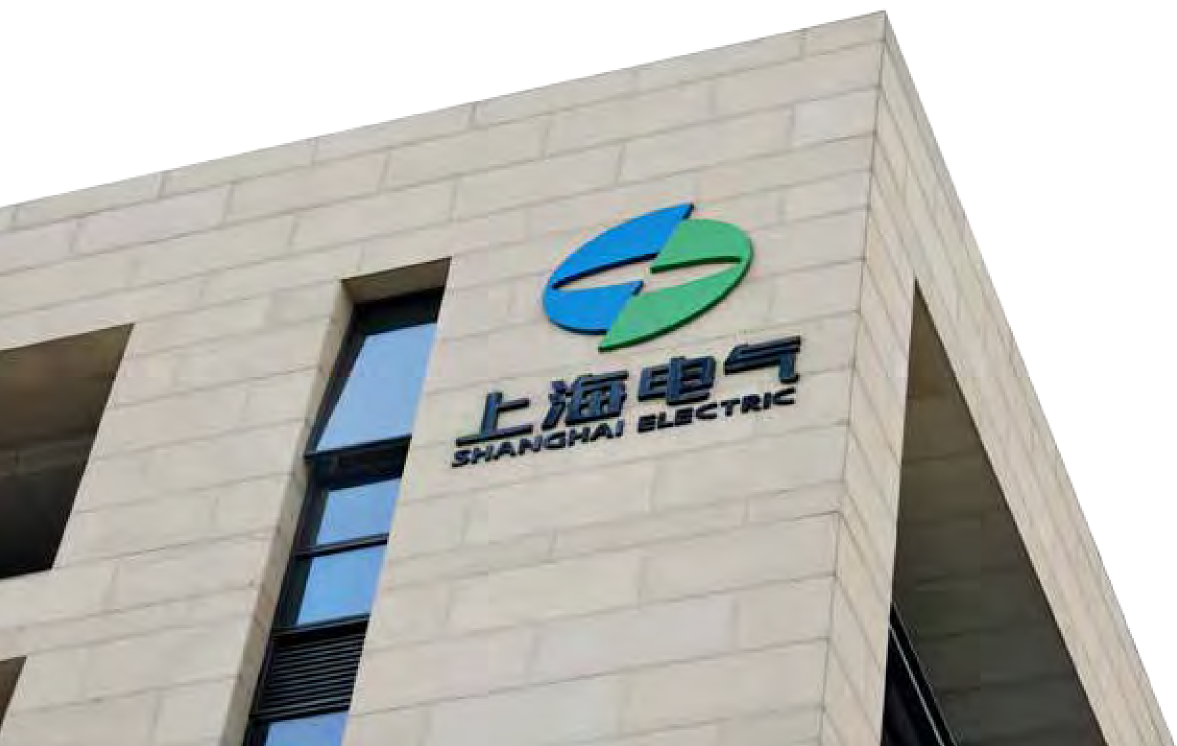
Disclosure of Interests

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

The followings are interests and short positions of substantial shareholders as at 31 December 2017 as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, Hong Kong ("SFO") and as to the knowledge of the Company:

Name of Substantial Shareholder	Class of shares	Capacity	Note	Number of shares	Nature of Interest	Approximate percentage of shareholding in the relevant class of shares (%)	Approximate percentage of shareholding in the total issued share capital of the Company (%)
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	A	Interest of controlled corporation	1	9,053,771,599*	Long position	77.04	61.48
	H	Interest of controlled corporation	1	303,642,000	Long position	10.21	2.06
Shanghai Electric (Group) Corporation	A	Beneficial owner	1	8,662,879,405*	Long position	73.71	58.83
	H	Beneficial owner	1	270,708,000	Long position	9.10	1.84
	H	Interest of controlled corporation	1,2	32,934,000	Long position	1.11	0.22
Shenergy Group Company Limited	A	Beneficial owner	1	390,892,194*	Long position	3.33	2.65
Sarasin & Partners LLP	H	Investment manager		189,238,000	Long position	6.37	1.29

As disclosed in the announcement on completion of assets acquisition and issuance of consideration shares and change in share capital published on 7 November 2017.



Notes

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

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

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Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2017 required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

As at 31 December 2017, none of the directors, supervisors or chief executives (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules")) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified by the directors, supervisors or chief executives to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules. Also, no right to acquire the aforementioned interests had been granted to the directors, supervisors or chief executives of the Company.

Disclosure of Interests

Directors, Supervisors, Senior Management and Staff

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

Name	Position (Note)	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the year	Changes in the number of shares for the year	Movement in the number of shares for the year	Reason for the change	Total payable remuneration received from the Company during the reporting period (RMB in ten thousand) (before tax)
Zheng Jianhua	Chairman of the Board and Chief Executive Officer	Male	57	26 February 2014	25 February 2017					77.1
Zhu Kelin	Vice Chairman of the Board	Male	55	26 February 2014	25 February 2017					
Li Jianjin	Non-executive Director	Male	59	28 June 2016	25 February 2017					
Yao Minfang	Non-executive Director	Female	50	26 February 2014	25 February 2017					
Lui Sun Wing	Independent Non-executive Director	Male	67	26 February 2014	25 February 2017					25
Kan Shun Ming	Independent Non-executive Director	Male	60	26 February 2014	25 February 2017					25
Chu Junhao	Independent Non-executive Director	Male	72	4 August 2014	25 February 2017					25
Dong Jianhua	Chairman of the Supervisory Committee	Male	52	26 February 2014	25 February 2017					
Li Bin	Supervisor	Male	57	26 February 2014	25 February 2017					
Zhou Changsheng	Supervisor	Male	52	26 February 2014	25 February 2017					
Zheng Weijian	Supervisor	Male	56	26 February 2014	25 February 2017					
Zhang Ke	Vice president	Male	57	20 May 2016	25 February 2017					
Chen Ganjin	Vice president	Male	49	20 January 2017	25 February 2017					65.5
Hu Kang	Chief Financial Officer	Male	54	26 February 2014	25 February 2017					73.3
Li Jing	Chief Information Officer	Female	50	26 February 2014	25 February 2017	2,996	2,996			86.3
Tong Liping	Chief Legal Officer	Female	46	26 February 2014	25 February 2017					75.3
Fu Rong	Secretary to the Board	Female	47	26 February 2014	25 February 2017					69
Li Chung Kwong Andrew	Company Secretary	Male	58	26 February 2014	25 February 2017					110
Total	/	/	/	/	/	2,996	2,996		/	631.5

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

Major work experience

Zheng Jianhua

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

Zhu Kelin

Joined the Company in March 2004 and is currently the vice chairman of the Company and a non-executive Director of the Board. Mr. Zhu has extensive experience in business administration. Mr. Zhu was the chairman of Fengchi Investment Co., Ltd. from May 2007 to July 2012, the general manager of Fengchi Investment Co., Ltd. from July 2012 to May 2015, the vice chairman of Guangdong Zhujiang Investment Holding Group Co., Ltd. from February 2008 to July 2011, and the chairman of Guangdong Zhujiang Investment Co,. Ltd. from December 2007 to June 2017. Mr. Zhu graduated from Western Sydney University with a master's degree in business administration.

Li Jianjin

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

Yao Minfang

Joined the Company in November 2007 and is currently a non-executive Director of the Company. Ms. Yao was the head and deputy manager of the investment department of Shenergy Company Limited from 2000 to 2006. Ms. Yao has been the deputy manager and then the manager of the investment management department of Shenergy Group Company Limited since September 2006. She served as a deputy chief engineer in September 2017 and the director of Technical Innovation Center in November 2017. Ms. Yao graduated from the dynamics department of the University of Shanghai for Science and Technology with a master's degree and is a senior engineer of professorial level.

Lui Sun Wing

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

Kan ShunMing

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

Chu Junhao

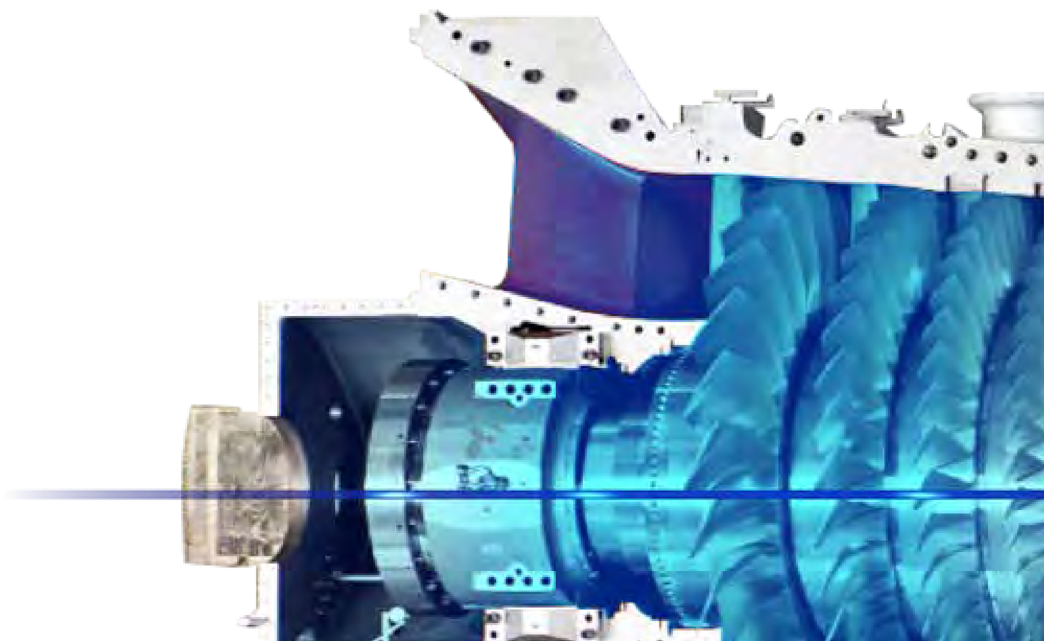
Joined the Company in August 2014 and is an academician of the Chinese Academy of Sciences. He is currently an independent non-executive Director of the Company, a researcher of Shanghai Institute of Technical Physics, the dean of the School of Information Science Technology of East China Normal University,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

Dong Jianhua

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

Li Bin

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

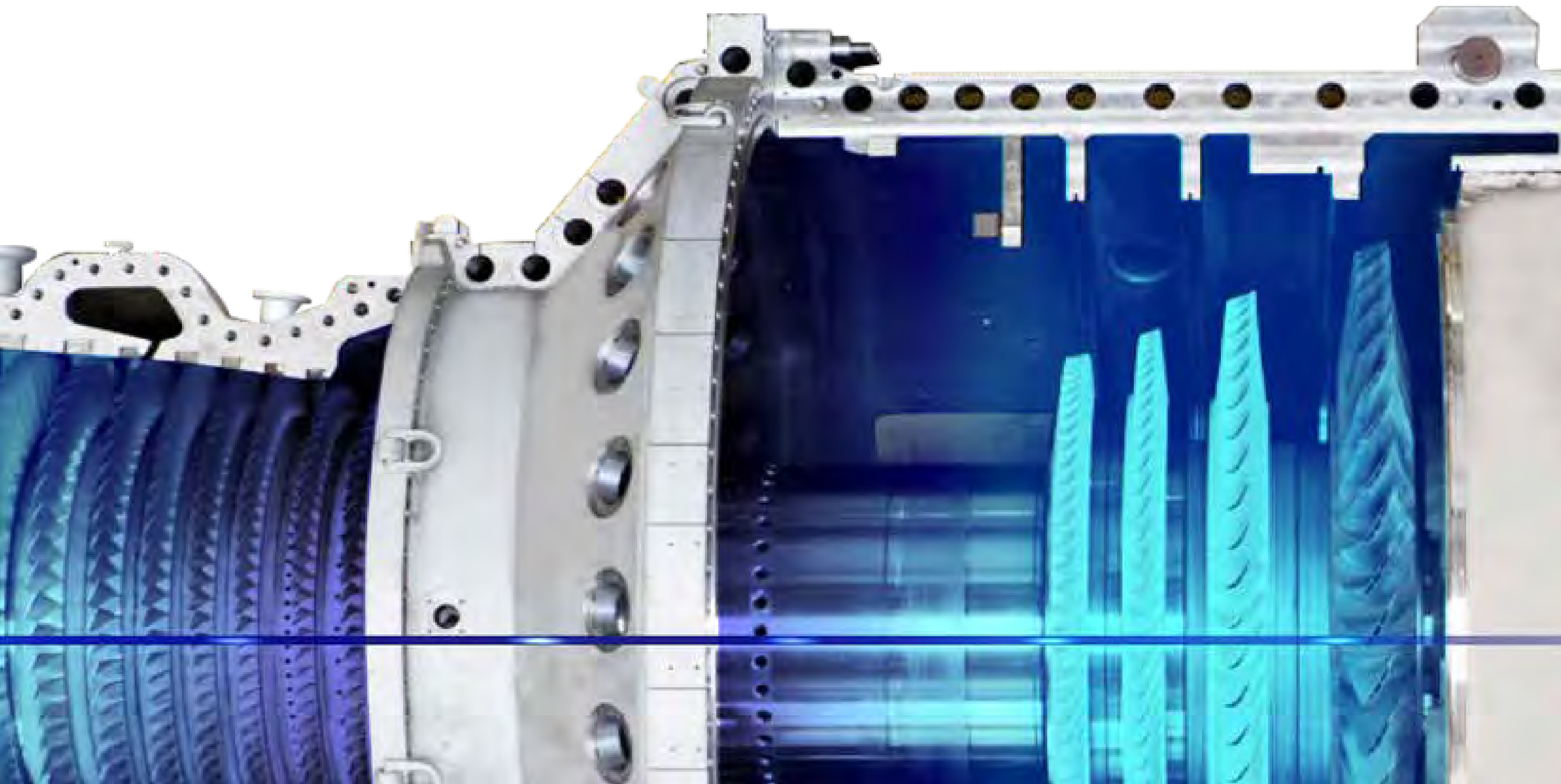


Zhou Changsheng

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

Zheng Weijian

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



Zhang Ke

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

Chen Ganjin

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

Hu Kang

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

Li Jing

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

Tong Liping

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

Fu Rong

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

Li Chung Kwong Andrew

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

Employment status with shareholder entities

Name	Name of shareholder entities	Position in shareholder entities	Term of office commencing on	Term of office ending on
Zheng Jianhua	Shanghai Electric (Group) Corporation	Chairman of the Board	2017-8	to present
Dong Jianhua	Shanghai Electric (Group) Corporation	Chief Financial Officer	2008-4	to present
	Shanghai Electric (Group) Corporation	Vice President	2016-4	to present
Yao Minfang	Shenergy Group Company Limited	Manager of the InvestmentManagement Department	2009-3	to present
	Shenergy Group Company Limited	Deputy Chief Engineer	2017-9	to present
	Shenergy Group Company Limited	Director of Science and Technology Innovation Center	2017-11	to present
Zhou Changsheng	Shenergy Company Limited	Supervisor, Director of Internal Control Department	2016-11	to present
Zheng Weijian	Fengchi Investment Co., Ltd.	Chairman of the Board	2012-7	to present

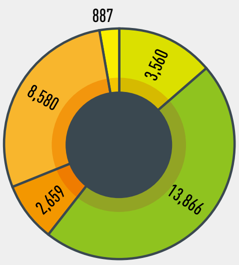
Employment status with other entities

Name	Name of other entities	Position in other entities	Term of office commencing on	Term of office ending on
Zhu Kelin	Guangdong Zhujiang Investment Co., Ltd.	Chairman of the Board	December 2007	June 2017
Lui Sun Wing	Eco-Tek Holdings Limited	Non-executive Director	January 2001	to present
Lui Sun Wing	Human Health Holdings Limited	Independent Non-executive Director	August 2016	to present
Lui Sun Wing	Shenzhen GTA Information Technology Co., Ltd.	Independent Non-executive Director	November 2014	to present
Kan Shun Ming	Wong Brothers & Co Certified Public Accountants	Partner	1990	to present
Kan Shun Ming	Authosis Ventures (翺科創業投資有限公司)	Director	2001	to present
Kan Shun Ming	Hong Kong Public Doctors' Association	Honorary auditor	1991	to present
Kan Shun Ming	German Chamber of Commerce Hong Kong	Honorary auditor	1990	to present
Kan Shun Ming	Tseung Kwan O Hospital of Hong Kong Hospital Authority	Member of the Governing Committee	April 2014	to present
Chu Junhao	Shanghai Institute of Technical Physics	Researcher	December 1984	to present
Chu Junhao	School of Information Science Technology, East China Normal University	Dean	July 2006	to present
Chu Junhao	Shanghai Solar Cells Research and Development Center	Head	January 2008	to present
Dong Jianhua	Shanghai Lingang Holdings Corporation Limited	Director	8 September 2015	27 September2018
Dong Jianhua	Shanghai Highly (Group) Co., Ltd.	Chairman of the Board	12 December 2017	11 December 2020
Li Bin	Shanghai Electric Hydraulic & Pneumatics Co., Ltd.	Chief technician	October 2004	to present
Zhou Changsheng	Anhui Wuhu Nuclear Power Co., Ltd.	Chief auditor	March 2009	to present
Zhou Changsheng	Shanghai Shenergy Electric Technology Co., Ltd	Supervisor	January 2017	to present
Zheng Weijian	Guangdong Zhujiang Investment Co., Ltd.	Chairman of the Supervisory	January 2008	to present

Remunerations of Directors, Supervisors and Senior Management

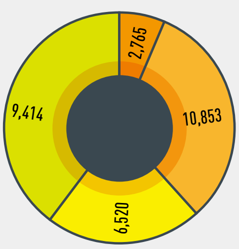
Procedures to determine the remunerations of Directors, Supervisors and Senior Management	The remunerations of our Directors and Supervisors (non-employee representatives) are determined in the general meeting, while the remunerations of our Senior Management are determined by the board of directors of the Company.
Basis for determining the remunerations of Directors, Supervisors and Senior Management	The remunerations of our Directors and Supervisors (non-employee representatives) are determined based on a number of factors, such as the operating results of the Company, their responsibilities, performance and market conditions. The remunerations of our Supervisors (employee representatives) and Senior Management are determined based on their responsibilities and performance appraisal in respect of degree of completion of annual operation plan.
The remunerations payable to Directors, Supervisors and Senior Management	The Company has paid the remunerations to its Directors, Supervisors and Senior Management based on their respective entitlement.
Total actual remunerations received by all Directors, Supervisors and Senior Management at the end of Reporting Period	RMB6.315 million

Statistical Chart of Personnel Classification



Production personnel
Sales personnel
Technical personnel
Financial personnel
Administration personnel

Statistical Chart of Education Level



Postgraduatc and above
Undcrgraduatc
Tertiary education
Secondary education and below

Changes of Directors, Supervisors and Senior Management of the Company

Name	Position	Change	Reason for the change
Zheng Jianhua	Chairman of the Board (legal representative), Chief Executive Officer, Chairman of the Strategic Committee	Elected	Work requirements
Zheng Jianhua	President	Resigned	Work requirements
Huang Dinan	Chairman of the Board (legal representative), Chief Executive Officer, Chairman of the Strategic Committee	Resigned	Change of work arrangement
Huang Ou	Executive Director, Vice President, Chief Technology Officer	Resigned	Change of work arrangement
Chen Ganjin	Vice President	Appointed	Work requirements
Zhu Genfu	Vice President	Dismissed	Personal reason

Employees of the Company and Principal Subsidiaries

Staff

Number of current staff in the Company	87
Number of current staff in the principal subsidiaries	29,465
Total number of current staff	29,552
Number of retired staff for whom the Company and the principal subsidiaries are responsible for the retirement benefits	297

Personnel classification

Personnel categories	Number of persons
Production personnel	13,866
Sales personnel	2,659
Technical personnel	8,580
Financial personnel	887
Administration personnel	3,560
Total	29,552

Education Level

Categories by education level	Number of persons
Postgraduate and above	2,765
Undergraduate	10,853
Tertiary education	6,520
Secondary education and below	9,414
Total	29,552

Remuneration Policy

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

Training Program

During the reporting period, the company adhered to the idea of demand driven, proceeded further with establishment of training system and training base, and continued on training of core employees, especially of leading cadres and talents strategically in need, making greater efforts on staff training on a full employees coverage basis and improving business development of the Group with enhancement in value of human capital by following closely the Group's strategy.

Contracted Labour

Total remuneration paid to contracted labour	RMB83 million

Services Contracts of Directors and Supervisors

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

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

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

Permitted Indemnity Provision

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

Incentive Share Option Scheme

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

Corporate Governance Report

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

The Company will periodically review and update the existing practices to keep abreast of the latest developments in corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code provisions regarding the purchase and sale of the Company' s shares by the directors of the Company on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors and supervisors of the Company confirmed that they had complied with the requirements contained in the Model Code throughout the year 2017. The Company was not aware of any non-compliance of the Model Code by any staff.

Board of Directors

During the reporting period, the Board comprised seven Directors, including one executive Director, namely Zheng Jianhua (Huang Dinan resigned on 1 September 2017, Huang Ou resigned on 20 January 2017), three non-executive Directors, namely Zhu Kelin, Li Jianjin and Yao Minfang, and three independent non-executive Directors, namely Lui Sun Wing, Kan Shun Ming and Chu Junhao. The number of independent non-executive Directors represents one-third of the total number of Directors.

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

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

Each of the independent non-executive directors has confirmed his/her independence with the Company as required under Rule 3.13 of the Hong Kong Listing Rules annually. The Company has received the annual confirmations from such Directors and considered them independent in 2017.

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

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

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

The Company attaches great importance to the continuous training of its Directors on various areas. During the reporting period, the Company has updated Directors on the latest regulations in aspects such as business, law and finance in order to enhance their professional knowledge on a continuous basis.

Attendance Record of Directors at Board meetings and general meetings

		Attendance at Board meetings						Attendance at general meetings
Name of Directors	Independent Non-executive Director	Required attendance in Board meetings during the year	Attendance in person	Attendance via other communication means	Attendance by proxy	Absence	Absence for two consecutive meetings in person	Attendance record at general meetings
Zheng Jianhua	No	18	3	15	0	0	No	1
Zhu Kelin	No	18	2	15	1	0	No	0
Li Jianjin	No	18	2	15	1	0	No	2
Yao Minfang	No	18	3	15	0	0	No	3
Lui Sun Wing	Yes	18	3	15	0	0	No	2
Kan Shun Ming	Yes	18	3	15	0	0	No	3
Chu Junhao	Yes	18	3	15	0	0	No	2

Number of Board meetings convened during the year	18
Of which: number of meetings by physical attendance	3
Number of meetings convened via other communication means	15
Number of meetings convened by physical attendance as well as via other communication means	0

Corporate Governance Functions

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

During the reporting period, the Board is of the view that the Company has complied with the requirements of the code provisions in Appendix 14 of the Hong Kong Listing Rules (the "Code"), except for the deviation from requirement of A.2.1 of the Code concerning the separation of the roles of the chairman and chief executive officer. Pursuant to code provision A.2.1, roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Until 31 August 2017, Mr. Huang Dinan had been the Chairman of the Board and the Chief Executive Officer of the Company, and Mr. Zheng Jianhua, being executive Director and the President of the Company, had been fully responsible for the daily operations and execution of the Company. On 1 September 2017, Mr. Huang Dinan resigned as the Chairman of the Board and the Chief Executive Officer of the Company. From 1 September 2017 to the date of this report, Mr. Zheng Jianhua undertook the roles of the Chairman of the Board, the Chief Executive Officer and acted as the President of the Company as well. The nomination committee of the Board will identify suitable candidate of the president of the Company for, and make recommendations to, the Board so as to appoint a president of the Company who shall be responsible for the daily operations and execution of the Company. To comply with the requirement of A.2.1 of the Code during this transition period, the Company has implemented a collective decision making mechanism for the daily operations and execution of the Company to avoid over-centralisation of management power, under which Mr. Zheng Jianhua shall be responsible for the overall strategy setting for the Company whilst the rest of the senior management of the Company shall be responsible for the daily operations and execution of the Company on a collective basis. The Company is of the view that segregation of duties and responsibilities between the Board and the management has been well maintained and there is no over-centralization of management power under such mechanism.

Audit Committee

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

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

Eight meetings were held by the Audit Committee during the reporting period. During these meetings, the Audit Committee has reviewed and overseen the risk management of the Company, financial reporting procedures and internal control system, reported its results of review and made recommendations to the Board. Our Audit Committee has also reviewed the quarterly, interim and annual financial reports and profit distribution plan of the Company, material connected transactions, continuing connected transaction and the appointment of and remuneration for auditors, and listened to the report on the 2017 risk management plan of the Company given by Audit and Inspection Office of the Company. On 28 March 2018, the Audit Committee reviewed and passed the 2017 risk management report of the Company.

During the reporting period, the attendance record of committee members at the meetings of the Audit Committee

(actual attendance/required attendance at the meetings)

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

Remuneration Committee

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

The Remuneration Committee of the Company currently comprises Dr. Lui Sun Wing and Mr. Chu Junhao, and is chaired by Dr. Lui Sun Wing.

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

The attendance record of committee members at the meetings of the Remuneration Committee during the reporting period

(actual attendance/required attendance at the meeting)

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

Strategy Committee

The strategy committee under the Board of the Company (the "Strategy Committee") currently comprises Mr. Zheng Jianhua, Mr. Huang Dinan (resigned on 1 September 2017), Dr. Lui Sun Wing and Mr. Chu Junhao, and is chaired by Mr. Huang Dinan.

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

Nomination Committee

The nomination committee under the Board of the Company (the "Nomination Committee") currently comprises Mr. Chu Junhao and Mr. Kan Shun Ming, and is chaired by Mr. Chu Junhao.

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

The Company has formulated the "Policy on Board Member Diversification of Shanghai Electric Group Company Limited", which includes the requirements of compliance with relevant laws, regulations and Articles of Association by candidates for Directors of the Company to ensure the effective discussions at the Board and enable the Board to make scientific, prompt and careful decisions. The Nomination Committee will select the candidates for Directors based on objective criteria, which contain certain diversified factors, including but not limited to, factors such as the gender, age, cultural and education background, locality, professional experience, skills, knowledge and terms of office of the candidates for Directors and other regulatory requirements; the degree of suitability of the professional background and skills of the candidates for Directors with the business features and future development requirements of the Company. No meeting was held by the Nomination Committee of the Company during the reporting period.

Directors' and Auditors' Responsibilities for Accounts

The Directors of the Company acknowledge their responsibilities for the preparation of financial reports for each financial year, which shall give a true and fair view of the financial position, the results and cash flows of the Group for that financial year. In preparing the financial report for the year ended 31 December 2017, the Directors have selected and consistently applied suitable accounting policies, made judgments and estimates that are prudent and reasonable, and have prepared the financial report on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Supervisory Committee

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

The attendance record of committee members at the meetings of the Supervisory Committee during the reporting period

(attendance in person/required attendance at the meetings)

Name of Remuneration Committee Member	Actual attendance/ attendance required
Dong Jianhua	6/6
Li Bin	6/6
Zhou Changsheng	6/6
Zheng Weijian	6/6

Senior Management

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

Risk Management and Internal Controls

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

The Board confirms that it has the responsibility to examine the risk management and internal control system of the Company and through the Audit Committee reviews the effectiveness of such system at least every year. The Board of the Company and the Audit Committee oversee and evaluate the completeness and effectiveness in relation to the design and implementation of the risk management and internal control system, as well as review and approve the evaluation report on risk management and internal control evaluation report. The management of the Company is responsible for the establishment and improvement of the risk management and internal control system of the Company, the review of working plans and annual report on risk management and internal controls.

The risk management and internal controls department of the Company designs and establishes the risk management and internal control system, compiles and releases the "Risk Management Regulations", "Procedures for Risk Management Implementation and Reporting", "Implementing Measures for Self-evaluation of Internal Controls" and "Procedures for Self-evaluation of Internal Controls" and other systems and regulations on internal controls for implementation, and also compiles the "Operation Handbook for Risk Management" and the "Handbook for Internal Controls". It carries out risk study and risk level assessment in respect of important business of the Group at least once a year and compiles and submits for management approval risk prevention and problems solving proposals on significant risks may be faced in the future. Upon receiving the approvals from the management of the Company, it executes such proposals which follow by regular self-assessment on the progress of implementation and its effectiveness.

The internal audit department oversees and evaluates the effectiveness of the implementation of the risk management and internal control system, prepares the plan for evaluation work, calls for qualified personnel with professional capability to form the evaluation team and conducts evaluation for the risk management and internal controls of the Company. It makes warnings and rectification suggestions on risks and internal control deficiencies identified, urges for remedial actions to cope with risks and to rectify system for deficiencies identified, prepares the risk management evaluation report and the internal control evaluation report and submits the reports to the management, the Audit Committee, the Supervisory Board and the Board of the Company for consideration, so as to enhance the effectiveness of the risk management and internal controls of the Company on an on-going basis.

The Company appoints accounting firms to conduct financial reports internal control audit every year, so as to identify internal control deficiencies in a timely manner, urge the relevant operational departments and units to implement rectification measures and ensure the effective operation of the internal controls of the Company. According to the relevant rules, the Company appointed PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal controls in relation to financial reporting of the Company for 2017, for which a standard opinion internal control audit report was received.

General Meetings

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

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

Communications with Shareholders

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

Company Secretary

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

Disclosure of Information and Investor Relations

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

Other Matters

During the Reporting Period, the Company made an amendment to the Articles of Association of the Company, which has been approved in the second Shareholders' Special Meeting in 2017 in the form of a Special Resolution. The content of the amendment please refer to the Circular of the Shareholders' Meeting dated 7 December 2017 and the Announcement of the voting result of the Shareholders' Meeting dated 29 December 2017.

Summary of General Meetings

Session of the meeting	Date of meeting	Designed websites where resolution Published	Disclosure Date of resolution
The first extraordinary general meeting for 2017、The first extraordinary A share class meeting for 2017、The first extraordinary H share class meeting for 2017	8 May 2017	www.hkexnews.hk www.sse.com.cn	8 May 2017 9 May 2017
Annual General Meeting of the Company for 2016	29 June 2017	www.hkexnews.hk www.sse.com.cn	29 June 2017 30 June 2017
The second extraordinary general meeting for 2017	29 December 2017	www.hkexnews.hk www.sse.com.cn	29 December 2017 30 December 2017

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

Principal Activities

The principal business of the Company focuses on four major sectors, namely high efficiency and clean energy equipment, new energy and environmental protection equipment, industrial equipment and modern services. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group' s principal activities during the year.

Buiness Review

During the reporting period, the Company achieved a turnover of RMB79.544 billion, representing a 10.13% decline over the corresponding period of preceding year; the net profits attributable to the shareholder of the parent company of RMB2,627 million, representing a 11.55% increase over the corresponding period of preceding year.

The Board proposed to declare a final dividend of RMB9.195 conts per share for 2017, accounting for 52% of the profit attributable to owners of the Company for 2017.

Business review of major business segments, analysis on operational information by industries, analysis of assets and liabilities and the board' s discussion and analysis on the future prospect of the Company are as follows:

Analysis of Principal Business

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

Unit: 100 million; Currency: RMB

Particulars	Current period	Corresponding period of preceding year (restated)	Percentage of change (%)
Revenue	795.44	885.07	(10.13)
Cost of sales	637.02	716.57	(11.10)
Selling and Distribution expenses	22.54	25.53	(11.71)
Administrative expenses	114.47	104.82	9.21
Finance cost	4.58	3.54	29.38
Net cash flows generated from operating activities	(75.25)	107.16	N/A
Net cash flows generated from investing activities	(43.27)	(110.09)	N/A
Net cash flows generated from financing activities	31.98	(33.79)	N/A
R&D expenditure	30.04	29.86	0.60

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

Analysis of changes:

There were net cash outflows generated from operating activities, mainly because the insufficient market liquidity during the reporting period and increased difficulties in funds collection resulted in a year-on-year decrease in the working capital inflow of the Company.

Compared with the corresponding period of preceding year, there was a decrease in net cash outflows generated from investing activities, mainly because the reporting period saw a decrease in investments of the Company' s financial business.

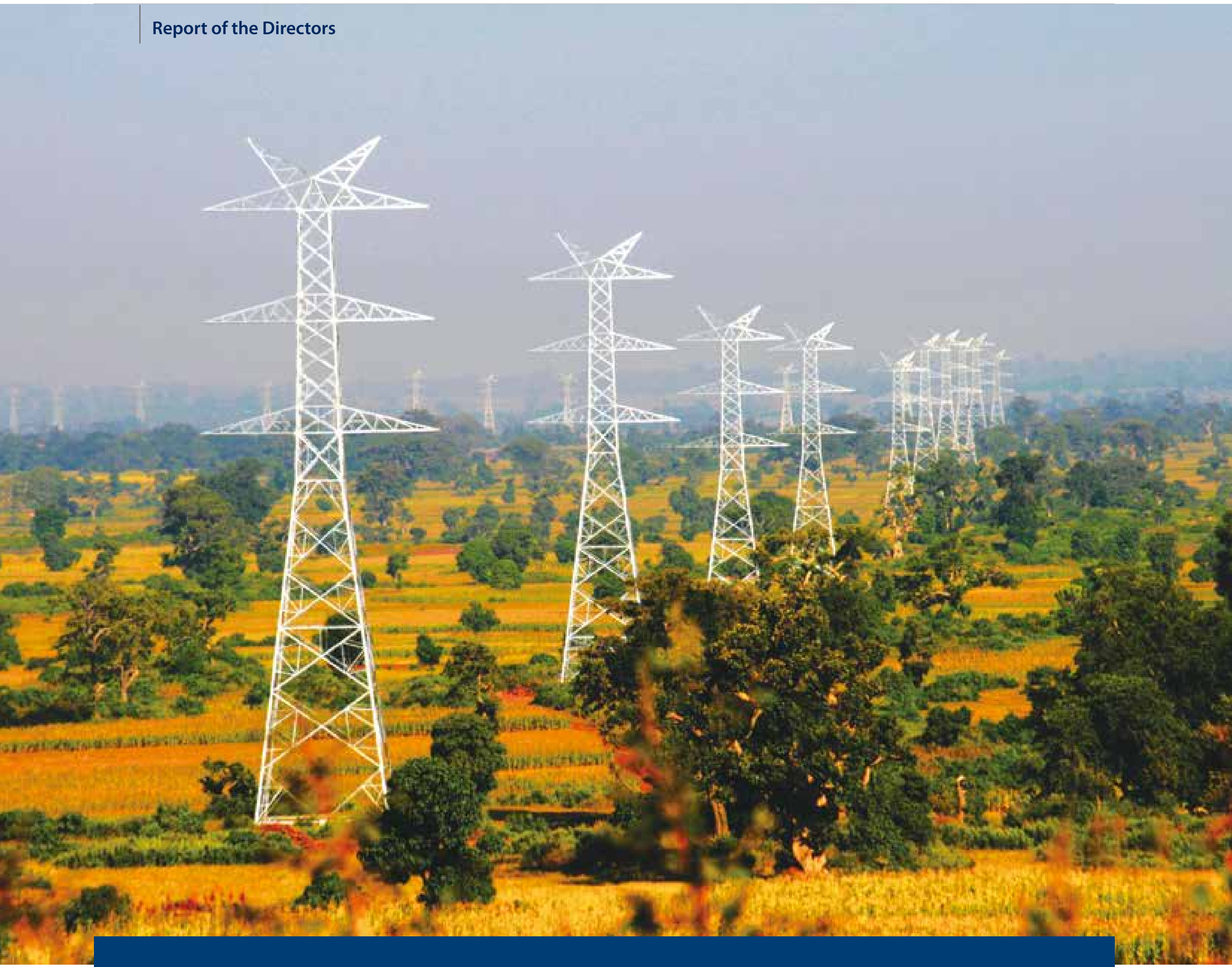
There were net cash inflows generated from financing activities for the reporting period compared with net cash outflows in the corresponding period of preceding year, mainly due to the non-public issuance of new shares by the Company during the reporting period resulting in an increase in subscription monies from shareholders compared with the corresponding period of preceding year.

Analysis of income and cost

During the reporting period, the Company achieved a turnover of RMB79.544billion, representing a decrease of 10.13% compared with the corresponding period of the preceding year; during the reporting period, the Company had a gross profit margin of 19.92%, representing a 0.88 percentage point increase over the corresponding period of preceding year.

Unit: 100 million Currency: RMB

Major businesses by segment						
By segment	Revenue	Cost of sales	Gross profit margin (%)	YoY change in revenue (%)	YoY change in cost of sales (%)	YoY change in gross profit margin (% point)
New energy and environmental protection equipment	110.18	94.14	14.6	(17.73)	(17.85)	An increase of 0.2 point
High efficiency and clean energy equipment	261.74	222.23	15.1	(6.87)	(5.30)	A decrease of 1.4 points
Industrial equipment	335.70	267.55	20.3	3.56	5.48	A decrease of 1.5% points
Modern services	136.64	104.00	23.9	(23.42)	(29.78)	An increase of 6.9% points
Major businesses by geographic location						
Geographic location	Revenue	Cost of sales	Gross profit margin (%)	YoY change in revenue (%)	YoY change in cost of sales (%)	YoY change in gross profit margin (% point)
Mainland China	690.27	551.82	20.1	(8.98)	(10.00)	An increase of 0.9% point
Other countries/jurisdiction	105.17	85.20	19.0	(16.98)	(17.65)	An increase of 0.7% point



Major customers

The Company's sales revenue from its five largest customers was RMB5.191 billion in aggregate during the reporting period, accounting for 6.53% of the total sales revenue of the Company.

Major suppliers

The Company's purchases amount from its five largest suppliers was RMB4.826 billion in aggregate during the reporting period, accounting for 7.86% of the total purchases amount of the Company.

R&D expenditure

Unit: 100 million; Currency: RMB

R&D expenditure expensed in the current period	30.04
R&D expenditure capitalized in the current period	0
Total R&D expenditure	30.04
Percentage of total R&D expenditure to turnover (%)	3.78
Number of R&D staff	2,798
Number of R&D staff over total number of staff (%)	9.47
Percentage of R&D expenditure capitalized (%)	0

Description

New Energy and Environmental Protection Equipment

In respect of nuclear power, we accelerated the pace of intelligence-based manufacturing of our nuclear power equipment, organized and commenced technological innovations and improvements in the manufacturing process of major equipment products for nuclear island, actively promoted the integration of informationization and industrialization, and carried out the research on the application of holographic-three-dimensional-based equipment model in the process of manufacturing corporations and implemented the project of intelligence-based manufacturing plants for major equipment in Lingang (臨港) nuclear island, laying a solid foundation for subsequent advancement of intelligence-based manufacturing equipment of nuclear power. In addition, we also actively cooperated with the Shanghai Institute of Applied Physics of the Chinese Academy of Sciences in respect of the fourth generation of nuclear power, and participated in the research and development of ruthenium-based molten salt reactors.

In respect of wind power, we have continuously enhanced our independent research and development capabilities, promoted key technological innovations and achieved significant achievements and breakthroughs, especially in large-capacity offshore wind turbines. At the end of 2017, the first 6MW offshore wind turbine was successfully installed in Xinghua, Fujian Province. It was the largest domestic high-power offshore wind turbine located in a wind farm with the world' s first high-power offshore wind turbine prototype. We successfully won the bid for a contract of manufacturing ten 7.0 MW wind turbines in Putian, Fujian, which is the first contract of our 7 MW offshore wind turbine. This model is currently the largest-capacity offshore wind turbine for commercial operation in China. "Feng Yun 1.0", Shanghai Electric' s smart cloud maintenance platform, uses big data and cloud computing to implement comprehensive monitoring, maintenance and optimization of wind turbines. Since its official launch, the number of remote access increased from 19 wind farms in 2016 to more than 60 wind farms in 2017. We also completed the construction of a new remote operation and maintenance center and a new data center to realize a new operation and maintenance management model, and provide intelligent, comprehensive and full-cycle digital operation and maintenance services for wind farms of Shanghai Electric.

High efficiency and clean energy equipment

Given the slowdown in coal-fired power generation equipment market, we actively promoted development of new products and shortened the research and development cycle of our products. In 2017, we launched more than 10 representative new products, which provided strong support for capturing market share. These representative products included the second generation of 350MW supercritical circulation fluid bed boiler, 600MW supercritical boiler with Xinjiang high-alkali coal as the sole burning fuel, 350MW new highly efficient supercritical steam turbine with double casings and double exhausts, the world' s first 660MW dual inner water-cooled generator and 550MW water hydrogen-cooled gas-turbine generator and the world' s largest 1,260MW full-speed thermal power steam turbine generator. In the development of full-set power generation units, due to the high demands of units below 300MW in overseas market, our technical department has standardized and modularized the optimization and development of small capacity units below 300MW in order to increase product efficiency while reducing the manufacturing costs, so that our small capacity units could be more competitive in overseas markets.

Industrial Equipment

Industrial Equipment: After the first breakthrough with orders for 8m/s high-speed elevator in 2016, Shanghai Mitsubishi Elevator launched the research and development of key technology for 10m/s high-speed elevators. It mainly embarked on the design and study in the safety components, mechanical components and electrical system to establish a solid foundation for the subsequent development of the elevator machine.

Cash flows

Unit: 100 million; Currency: RMB

Item	Current period	Corresponding period of preceding year (restated)	Percentage of change (%)
Net cash flows generated from operating activities	-75.25	107.16	N/A
Net cash flows generated from investing activities	-43.27	-110.09	N/A
Net cash flows generated from financing activities	31.98	-33.79	N/A

Analysis of changes:

There were net cash outflows generated from operating activities, mainly because the insufficient market liquidity during the reporting period and increased difficulties in funds collection resulted in a year-on-year decrease in the working capital inflow of the Company.

Compared with the corresponding period of preceding year, there was a decrease in net cash outflows generated from investing activities, mainly because the reporting period saw a decrease in investments of the Company' s financial business.

There were net cash inflows generated from financing activities for the reporting period compared with net cash outflows in the corresponding period of preceding year, mainly due to the non-public issuance of new shares by the Company during the reporting period resulting in an increase in subscription monies from shareholders compared with the corresponding period of preceding year.

Analysis of assets and liabilities

Assets and liabilities

Unit: 100 million; Currency: RMB

Particulars	By the end of the current period	Proportion to total assets by the end of the current period (%)	By the end of the preceding period (restated)	Proportion to total assets by the end of the preceding period (%)	Percentage of change in amount compared with the end of the preceding period (%)
Inventories	290.57	14.58	221.85	11.89	30.98
Cash and cash equivalents	224.69	11.27	311.96	16.72	-27.97
Trade payables	337.40	16.93	322.08	17.26	4.76

Analysis of changes:

The increase in inventory over the corresponding period of the preceding year was mainly due to the effects of the national macroeconomic policies. The delay in execution and delivery of certain businesses and projects of the Company led to an increase in inventory. At the same time, inventory increased due to the new orders from certain businesses and stock-up for production in incomplete projects.

Analysis on operational information by industries

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

New energy and environmental protection equipment: for nuclear power, Yangjiang No. 4 and Fuqing No. 4 power generation units were put into operation in 2016. The total number of units in operation was 38 with the total power generation installed capacity of 35.81GW in China. On 29 December 2017, CNEC announced the commencement of the civil engineering for the demonstration fast reactor project in Xiapu County, Fujian. The demonstration fast reactor project is a national key science and technology program and is of significance in achieving the closed cycle of nuclear fuels, facilitating the sustainable development of nuclear energy in China and promoting local economic construction. Insiders expect that 5 sets of power generation units will put into operation and 4-10 new projects will be approved in 2018. Based on the 13th Five-Year Plan on Energy Development, many new projects, including "Hualong One", CAP1000, fast reactors, high temperature gas cooled reactors and small reactors will be established. In addition, the consolidation of different types of reactors will speed up. The problem on various and complicated types of reactors may be solved and the proprietary 3G reactors will dominate the industry. The development of nuclear power will enter into a new stage. For wind power business, the growth in the Chinese wind power market further slowed down due to the impact of certain policies in 2017. The addition in installed capacity (connected to the power grid) for 2017 was 15.03GW. In 2017, the sales of wind power equipment of Shanghai Electric reached 1180MW and the installed capacity of offshore wind power maintained its first position in China. As for the environmental protection, with the deteriorating environmental conditions and the public' s strong demand for improving the environment, China continues to step up its environmental protection magnitude with new measures including "10 Clauses for Clear Water Plan" (水十條), "10 Clauses for Clean Land Plan" (土十條) and "10 Clauses for Clean Air Plan" (大氣十條), as well as urban environmental infrastructure and other major projects to help.

High Efficiency and Clean Energy Equipment: According to the statistics released by the National Energy Administration, in 2017, the average utilization hours of power generation units of 6,000 kW or above in China were 3,786 hours, representing a year-on-year decrease of 11 hours. Among which, the average utilization hours of thermal power equipment were 4,209 hours, a year-on-year increase of 23 hours. National macro-regulatory policies on regular thermal power generation have shown preliminary effects. It is expected that China will continue to implement thermal power planning and construction risk warning mechanism, red warning area must exercise strict control over planning and construction of captive thermal power plants, strict implementation of control measures such as "construction suspension" and "construction deferral", and continue to increase efforts over shutting down obsolete thermal power generation units. We will stick to a self-leading and innovation-driven principle, by strengthening the analysis on power industry and customer demand, to develop marketable products. We give full play to technological leading effect, and vigorously improve product quality, launching high-end environmental friendly thermal power equipment with features of "high-parameter, high-reliability, high-stability, low energy consumption, low emission and low pollution" on a continuing basis.

Industrial Equipment: By the end of 2017, the number of elevators in use in China exceeded 5.5 million units. The number of old elevators in use for over 15 years increased. Due to the impact of the real estate market, the growth rate of the elevator machine demand will slow down for some time in the following period, but with the promotion of new urbanization strategy and the impact of "aging" population that goes on, the elevator industry will remain a steady growth trend. By the end of 2017, the elevator industry has nearly 700 machine manufacturing enterprises. It is expected that the elevator industry competition will be more intense in the next few years. With the expanding trend overcapacity in the industry, the industry competition will lead to a development trend for consolidation into "big enterprises". In the field of aviation industry, it is expected that China will be the world' s largest passenger aircraft buyers in the next 20 years. While focusing on maintaining the relationship with Airbus SAS and other major clients, Broetje also increased the development in the Chinese market in 2017. On the one hand, it formulated a comprehensive localized operation strategy; on the other hand, it actively participated in bidding activities in the domestic market to give play to the market synergy after its being acquired by the company.

Modern Services: The modern services segment of the Company is mainly engaged in power plant engineering business and financial services providing support to the development of the Group' s principal business. In 2017, by building on the national initiative of "One Belt, One Road", we targeted at more than 50 countries and regions along the

"One Belt, One Road" as the principal markets of our power plant engineering business. We have established overseas sales network presences in India, Malaysia, Saudi Arabia, Dubai and other overseas areas to actively accelerate the establishment of network sales outlets and achieve multi-region sales capability. Our power plant engineering business no longer focuses solely on thermal power business and instead we are exploring the markets of new energy and distributed energy. We also strived to move forward the integration between business and finance and further strengthened project investments and project financing. The financial business of the Company is committed to becoming "the best model of financial business within global equipment manufacturing industry in alignment with situations in China" aiming at achieving three areas of transformation: from "treasury as an execution arm only" to "treasury with management and planning functionality", from "merely as an Internal Bank" to a "value-added financial service platform", from "engagement in new business of isolated market" to "becoming a growth engine with engagement in business that adhered to main business".

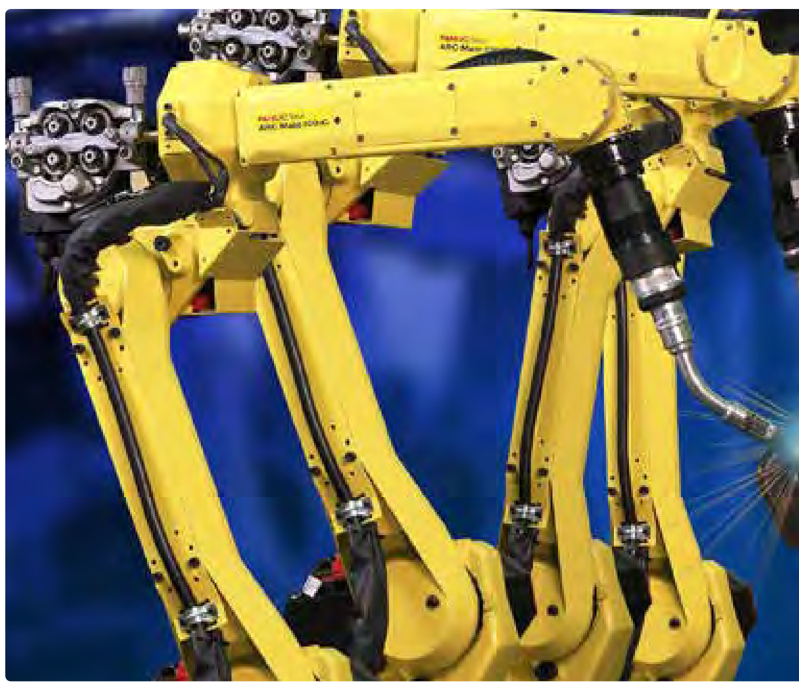
The Board's discussion and analysis on the future prospect of the Company

Industry competition landscape and the development trend

Although there exists some cyclical and total quantitative factors, the root cause of contradictions and problems that China' s economy is facing is structural imbalance, which results in poor circulation within the economy. It must be dealt with from the supply side and structural reform, making effort to achieve new dynamic equilibrium of supply and demand.

According to the "Guiding Opinions on Energy Work in 2018" issued by National Energy Administration, the national total energy consumption will be controlled within the limit of 4.55 billion tons of standard coal in 2018, increasing slightly from that of 2017. The consumption proportion of non-fossil energy and natural gas will increase to about 14.3% and 7.5% while the coal consumption proportion will reduce to come down 59%. The national total energy production will be about 3.66 billion tons of standard coal. The production of coal, crude oil and natural gas will be about 3.7 billion tons, 190 million tons and 160 billion cubic meters, respectively. The installed capacity of non-fossil energy power will reach about 740GW and the power generation will be about 2 trillion kWh. In 2018, China will steadily promote the construction of wind power projects. In the same year, the capacity for new construction of wind power will be about 25GW, while addition in installed capacity will be around 20GW. It will solidly advance the preliminary work in wind power projects in certain regions with a capacity of about 20GW. China will vigorously and steadily promote the construction of offshore wind power projects, explore and facilitate the construction of demonstration offshore wind power projects in deep waters of Shanghai and accelerate the development of distributed wind power business. China will actively promote the construction of nuclear power projects under progress and plan to complete within 2018 Sanmen No. 1, Haiyang No. 1, Taishan No. 1, Tianwan No. 3 and Yangjiang No. 5 power generation units with an addition in the total installed capacity of about 6GW. China will proactively advance the approval and construction of qualified projects and plan to commence the construction of 6-8 units within 2018. China will steadily continue the construction of photovoltaic power generation projects and standardize and facilitate the development of distributed photovoltaic power generation. We will also boost in an orderly manner the construction of demonstration solar thermal power generation projects and plan to complete within 2018the construction of Delingha project of CGNPC, Dunhuang project of Shouhang Resources Saving and other demonstration projects with an installed capacity of about 0.2GW.

As a large scale energy equipment manufacturing group, the Company will continue to strive to enhance our product competitiveness and enlarge our market shares. During the



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

Company development strategy

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

We will adhere to the strategic guideline of "valuing technology over assets", tap into the opportunities arising from the national "One Belt, One Road" initiatives, regard customer demands as the driving engine and take craftsman spirit, China and the world with more efficient, eco-friendly and economic energy and industrial equipment and integrated solutions, thereby developing Shanghai Electric into a modern international conglomerate in the first echelon in the world.

We will further focus on three major areas, namely "energy equipment, industrial equipment and integrated services". For energy equipment, we will focus on the development of green and high efficiency clean energy and new energy. For industrial equipment, we will actively advance the transformation from traditional manufacturing to intelligent manufacturing to achieve automation, digitalization and intelligentization. For integrated services, we will speed up in the development of production services and financial services. We will continue to make our thermal power, gas turbines, nuclear power, wind power, power transmission and distribution, power plant engineering, power plant services, elevators, key fundamental components and electric motors stronger and better. We will vigorously develop new industries such as environmental protection and automation and actively explore energy storage, high-end medical treatment and other new areas and consistently optimize the industrial layout of the Group to establish more healthy, efficient and sustainable business portfolios "in line with the future development trend of the society, the strategic development vision of the Group and the balancing of current and medium- to long-term benefits".

We will strive to achieve transformation in three areas, namely accelerating the transformation from provision of traditional energy equipment to high efficiency and clean energy equipment, the transformation from traditional manufacturing to intelligent manufacturing and the transformation from a mere manufacturing model to a "manufacturing + service" mode. We will actively promote the deep integration of industry technology and information technology. With intelligent manufacturing as the focus, we will take full advantage of the Internet, the Internet of Things, big data, cloud computing and other advanced information technology to boost the automation, digitalization and intelligentization of high-end equipment. We will energetically advance development of existing businesses and spillover from incremental businesses at the same time and integrate endogenous production and operation with exogenous investment and M&As to promote the great-leap-forward development of Shanghai Electric.

Operation Plans

In 2018, with the theme of the "year of innovation" and the "year of implementation" and with the solving of key issues and bottlenecks in the development of the Group as the driver, we will further free our minds and transform our ideas to focus on the development of strategic industries and consistently boost the development potential of the Group. We will further unleash the huge impetus, pressure and vitality in the reform and development of the Group through the reform and innovation in systems, mechanisms and the management relationship to achieve revenue growth compared with 2017. We will also focus on the following work:

Focusing on the strategic targets of the Group and accelerating in the development of strategic industries

Focusing on the strategic vision and targets of the Group, we will accelerate in the development of strategic industries, namely the high-end, intelligent and advanced equipment manufacturing industry in line with the future development trends of the society. We will conduct strategic studies and technical reserves in advance and focus on the development of gas turbines, smart energy and distributed energy, environmental protection, energy storage, intelligent manufacturing and other businesses in the next step.

Boosting industry capability and speeding up in implementing "going-global" strategy on production capacity

We will make major businesses of the Group better and stronger and consistently boost the industry capability through targeting at the first echelon of all industries where the Group' s businesses operate. We will accelerate in the implementation of the "going-global" strategy on production capacity, achieve professionalized and socialized production through full transfer of non-core manufacturing processes and enhance the cost competitiveness of subsidiaries of the Group to achieve the strategic transformation with "Localizing R&D and Sales functionality, Outsourcing Production and Processing".

Increasing technical input and improving quality and efficiency in technology innovation

We will continue to increase the capital input in scientific research on the basis of the existing R&D input. We will consistently improve the concentration of R&D input, which will focus on technologies for industries covered by the Group' s long-term plans on technology development. Meanwhile, we will capture sources of technology through mergers and acquisitions, joint venture cooperation, venture investments, independent R&D and other channels to improve the quality and efficiency of technology innovation.

Actively developing financial industry and displaying the synergy effect on the integration between business and finance

Shanghai Electric energetically develops the financial business to focus on, support and serve its principal business. Through strengthening the professionalized, market-based and socialized construction of the financial businesses, it will facilitate the positive role of the financial businesses in pushing the development of the Company' s equipment manufacturing industry. With financial supports, it will conduct innovation in business models of core industries, boost the market competitiveness and profitability of core industries of the Company and give play to the synergy effect on the integration between business and finance.

Speeding up in system and mechanism reform and talents team building

In 2018, the Company will focus on the reform of systems and mechanisms and speed up in the pilot reform on diversified ownership in enterprises within the Group. It will accelerate the establishment of a long-term incentive mechanism for core staff, explore innovations in the business partner mechanism, professional manager system and other systems in the development of emerging industries and work together to promote common development and share development results. It will make more efforts in talents team building and increase incentives to technical, high-end manufacturing talents and professional talent teams. In addition, it will solve the housing problem for its young talents through the renovation of staff dormitories and the construction of staff apartments to improve the competitiveness of Shanghai Electric in attracting young talents.

Potential Risks

Market Risks

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

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

Overseas Business Risks

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

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

Exchange Rate Fluctuation Risks

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

Source of Funding and Indebtedness

As at 31 December 2017, the Group had an aggregate amount of bank and other borrowings and bonds of RMB19,026 million (2016 (restated): RMB17,600 million), representing an increase of RMB1,426million as compared with that of the beginning of the year. Borrowings and bonds repayable by the Company within one year amounted to RMB4,823 million, representing an increase of RMB1,742 million as compared with that of the beginning of the year. Borrowings and bonds repayable after one year amounted to RMB14,203 million, representing a decrease of RMB316 million as compared with that of the beginning of the year.

As at 31 December 2017, included within the bank and other borrowings of the Group are unsecured bank borrowings of USD144,139,000 in total (2016 (restated): USD144,136,000), equivalent to RMB941,833,000 (2016 (restated): RMB999,870,000), EUR127,203,000 in total (2016 (restated): EUR110,904,000), equivalent to RMB992,475,000 (2016 (restated): RMB810,351,000), MYR41,000,000 in total (2016 (restated): MYR68,600,000), equivalent to RMB65,891,000 (2016 (restated): RMB106,512,000) and GBP63,000 in total (2016 (restated): GBP2,648,000), equivalent to RMB553,000 (2016 (restated): RMB22,534,000), secured bank borrowings of EUR103,281,000 in total (2016 (restated): EUR113,766,000), equivalent to RMB805,832,000 (2016 (restated): RMB763,145,000) and guaranteed bank borrowings of USD35,975,000 in total (2016 (restated): USD0), equivalent to RMB235,071,000 (2016 (restated): RMB0), all other unsecured bank borrowings are denominated in Renminbi.

As at 31 December 2017, gearing ratio of the Group, which represents the ratio of the sum of interest-bearing bank borrowings and other borrowings and bonds to the sum of total equity of the shareholders plus interest-bearing bank borrowings and other borrowings and bonds, was 21.20%, representing a decrease of 0.79 percentage point as compared with 21.99% (restated) at the beginning of the year.

Pledge of Assets

As at 31 December 2017, the Group' s bank deposits of RMB565 million (2016 (restated): RMB801 million) and bills receivable of RMB222 million (2016 (restated): RMB176 million) were pledged to banks for bank borrowings or credit facilities. In addition, the Group' s certain properties and accounts receivable, with the net carrying value of RMB423 million as at 31 December 2017 (2016 (restated): RMB508million), were pledged for certain bank loans of the Group. Moreover, the Group pledged the equity interests held by certain subsidiaries (the net assets of such equity interests amounted to €817 million in total as at 31 December 2017) to secure bank borrowings.

Events After the Date of Financial Statements

For details of the proposed final dividend for 2017, please refer to note 15 to the financial statements and the paragraph headed "Proposals for profit distribution or appropriation from capital reserves to share capital" below.

Contingent Liabilities

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

Capital Commitments

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

Use of Proceeds from Financing Activities and Capital Utilization Plan

Under the complicating economic conditions in the macro environment, we adhered to the scientific and cautious investment philosophy and maintain an appropriate investment scale. In March 2013, the Company completed the issue of corporate bonds of RMB2 billion by public offering, which had been repaid in full by the Company in February 2016 and February 2018. Use of the proceeds and utilization plan etc. are in accordance with the issue document.

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

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

On 7 November 2017, the Company completed the issue of A shares with an aggregate amount of RMB3 billion to eight specific investors (including Shanghai Electric (Group) Corporation, the controlling shareholder of the Company) by way of non-public issuance. Proceeds from the non-public issuance will be used to finance the projects including Emerging Industrial Park Development Project at Gonghe New Road, Innovative Industry Park Reformation Project at Beinei Road, Technology Innovative Park Reformation Project at Jinshajiang Branch Road, and Industrial Research, Development and Design and High-end Equipment Manufacturing Base Construction Project at Jun Gong Road.

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

None.

Proposals for profit distribution or transfer capital reserves to share capital

As audited by PricewaterhouseCoopers Zhong Tian LLP, the net profit of the parent company as set out in the financial statements prepared by the Company in accordance with PRC GAAP was RMB 1,223,905,000 for 2017, and the undistributed profits at the beginning of 2017 was RMB 10,085,366,000. After a transfer to statutory surplus reserves of RMB122,390,000, the distributable profits amounted to RMB 11,186,881,000. As preliminarily audited by PricewaterhouseCoopers Zhong Tian LLP, the net profit attributable to shareholders of the parent company recognized by the Company in accordance with PRC GAAP was RMB 2,659,576,000 for 2017, and the net profit attributable to shareholders of the parent company recognized by the Company in accordance with Hong Kong Financial Reporting Standards was RMB 2,626,668,000 for 2017.

The Proposals of profit distribution for 2017: Based on the total share capital as at the shareholding registration record date for the Company's profit distribution, cash dividend of RMB0.9195 (tax inclusive) will be distributed for every 10 shares held, with an estimated dividend payment of RMB 1,353,980,000, representing approximately 51% of the net profit attributable to shareholders of the parent company amounting to RMB 2,659,576,000 recognized in accordance with PRC GAAP; and 52% of the net profit attributable to shareholders of the parent company amounting to RMB2,626,668,000 recognized in accordance with Hong Kong Financial Reporting Standards.

Final dividend

The Board of the Company proposed to declare the final dividend for the year 2017 at RMB9.195 cents (tax inclusive) per share, which is subject to approval at the annual general meeting of the Company.

Final dividend income tax withholding and payment

According to the implementation rules which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend for the year 2017 to non-resident enterprise shareholders as appearing on the H Share register of members of the Company. Any shares registered in the name of the non-individual registered shareholders including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the corporate income tax.

Closure of Register of Members

The Company will notify shareholders on a later date about the date of the annual general meeting for the year 2017 as well as the corresponding period for closure of register of members for the distribution of final dividend.

Contract of Significance

During the reporting period, save as the disclosed Agreement in relation to Assets Acquisition by Issuance of Shares, Supplemental Agreements to Assets Acquisition by Issuance of Shares (1), Supplemental Agreements to Assets Acquisition by Issuance of Shares (2), Share Subscription Agreements and the respective supplemental agreements, the Company or any of its subsidiaries did not have any contract of significance with its controlling shareholder or its subsidiaries, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries (as defined in Appendix 16 to the Hong Kong Listing Rules).

Equity-linked Agreemen

A Share Convertible Corporate Bonds

In January 2015, CSRC approved in writing the Company's public issuances of A share convertible corporate bonds in an aggregate sum of RMB6.0 billion. In February 2015, the Company completed issuing a total of 60,000,000 A share convertible corporate bonds with a nominal value of RMB100 each (the "Electric Convertible Bonds"), amounting to RMB6 billion in aggregate. The Electric Convertible Bonds were listed on the Shanghai Stock Exchange as from 16 February 2015 under the bond code of "113008". The initial conversion price of the Electric Convertible Bonds was RMB10.72 per A Share. The conversion price was adjusted from RMB10.72 per share to RMB10.66 per share from 2 July 2015, further adjusted from RMB 10.66 per share to RMB 10.65 per share from 28 November 2016, further adjusted from RMB 10.65 per share to RMB 10.46 per share from 24 October 2017 and further adjusted from RMB 10.46 per share to RMB 10.37 per share from 9 November 2017. The term of the Electric Convertible Bonds commences from 2 February 2015 and ends on 1 February 2021 and the conversion period commences from 3 August 2015 and ends on 1 February 2021. Up to 31 December 2017, the Electric Convertible Bonds amounting to RMB 7,502,000 have been converted into 703,916 A shares. During the reporting period, the Electric Convertible Bonds amounting to RMB 18,400 have been converted into 17,516 A shares. As at 31 December 2017, the unconverted Electric Convertible Bonds amounted to RMB5,992,498,000.

As at the end of the reporting period, if all unconverted Electric Convertible Bonds of the Company were converted into A shares of the Company, the dilutive effect on shareholders would be as follows:

(i) if the unconverted Electric Convertible Bonds are fully converted, the number of shares to be issued will increase to 577,868,659 A shares; the total share capital of the Company will increase from 14,725,180,717 shares to 15,303,049,376 shares. The consolidated shareholding of Shanghai Electric (Group) Corporation, the controlling shareholder of the Company, will drop from 60.89% to 58.59%; and

(ii) if the Electric Convertible Bonds are fully converted into A shares of the Company during the reporting period, there will be no material adverse impact on the financial and liquidity conditions of the Company, and the Company has the ability to perform the redemption obligations of the Electric Convertible Bonds.

For details, please refer to the announcements of the Company dated 20 January 2015, 28 January 2015, 11 February 2015, 25 June 2015, 27 July 2015, 24 November 2016, 22 October 2017 and 7 November 2017 and note 41 to the consolidated financial statements of this report.

Assets Restructuring and Placing of A shares

The details of this transaction are set out in the section headed "Significant Events - Discloseable Transactions and Connected Transactions" of this report, the announcements of the Company dated 14 November 2016 and 17 March 2017, the circular of the Company dated 23 March 2017, and note 49 to the consolidated financial statements of this report.

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

Donations

The Group actively performed its social responsibilities, and the total expenses of the Group for public welfare projects, charity donations, poverty supporting donations and education sponsorship in 2017 was RMB 5.505 million.

Compliance with relevant laws and regulations

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

Environmental policies and performance of the Company

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

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

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

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

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

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

Reserves

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

Property, plant and equipment

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

Right of Directors to acquire shares and debentures

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

Sufficiency of Public float

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

Pre-emptive Rights Arrangement

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

ZHENG JIANHUA
CHAIRMAN OF BOARD AND CHIEF EXECUTIVE OFFICER

Significant Events

Equity interests in other listed companies held by the Company

Unit: Yuan Currency: RMB

No.	Stock abbreviation	Initial investment amount	Equity share (%)	Carrying amount as at the end of the period	Gain or loss during the reporting period	Changes in owners' equity during the reporting period	Account	Resource of shares
600642	Shenergy	2,800,000	0.06	15,822,000	0	(20,250)	Available-for-sale financial assets	Purchase
600633	Zhejiang Daily Media	7,471,992	0.37	66,612,480	0	(8,085,528)	Available-for-sale financial assets	Purchase
600501	Wu Han Department Store Group Co., Ltd.	353,609	0.03	3,095,649	0	137,420	Available-for-sale financial assets	Purchase
600665	A Tande Co., Ltd.	1,399,200	0.09	3,381,840	0	(617,760)	Available-for-sale financial assets	Purchase
600027	HDPI A-share	234,000,016	0.76	278,250,018	0	(69,750,005)	Available-for-sale financial assets	Purchase
601229	Bank of Shanghai	958,970	0.02	25,331,124	0	(4,994,351)	Available-for-sale financial assets	Purchase
	合計：	246,983,787	/	392,493,111	0	(83,330,474)	/	/

Trading of shares in other listed companies

Unit: Yuan Currency: RMB

No.	Stock abbreviation	Numbers of shares at the beginning of the period (share(s))	Shares purchased during the reporting period (share(s))	Amount of funds utilized (Yuan)	Shares sold during the reporting period (share(s))	Numbers of shares at the end of the period (share(s))	Investment gains generated (Yuan)
601328	BOCOM	6,051,443	0	0	6,051,443	0	28,037,907
600000	SPDB	3,547,500	0	0	3,547,500	0	55,233,618
600845	Baosight	3,510,000	0	0	3,510,000	0	55,751,801
600643	AJG	37,102	0	0	37,102	0	497,452
600618	SCAC	338,800	0	0	338,800	0	3,097,217
600637	SVA Information Industry Co., Ltd.	28,643	0	0	28,643	0	443,700
	合計：	/	/	0	/	/	143,061,695

Connected Transactions and Continuing Connected Transactions

According to the provisions of Hong Kong Listing Rules, the connected transactions and continuing connected transactions between the Company and its subsidiaries (the "Group") and their connected persons for the year ended 31 December 2017 are disclosed in detail as follows:

Connected transactions

On 28 December 2017, the Board of the Company agreed to the repurchase of the parcels of land on No.88 Zhang Jia Bang Road North, No. 534 Fangxie Road and No. 1 Lane 651 South Huangpi Road in cash by Shanghai Electric (Group) Corporation. As provided in the undertaking given by Shanghai Electric (Group) Corporation, the repurchase price shall be the higher of the valuation of the repurchased land at the time of repurchase and the prevailing valuation under the asset organization transactions. As the valuation of the repurchased land as at 31 October 2017 contained in the valuation report prepared by Shanghai Orient Asset Appraisal Co., Ltd. is higher than the valuation of the repurchased land as at 30 September 2015, the total consideration for the repurchased land shall be the higher valuation, which is RMB179,409,983.40. The transaction was completed during the reporting period.

Continuing Connected Transactions

According to the provisions of the Hong Kong Listing Rules, the details of the continuing connected transactions between Company and its subsidiaries ("Group") and the connected persons as of 31 December 2017 are set forth below:

Connected Transactions with Shanghai Electric (Group) Corporation

Framework sales agreement

The Company entered into a framework sales agreement with SE Corporation on 14 November 2016, pursuant to which the Group agrees to provide electrical engineering products, electrical equipment, and other related services to SE Corporation and its subsidiaries and associates (the "Parent Group"). Pursuant to the agreement, the annual cap of the relevant sales for the year ended 31 December 2017 was estimated to be *RMB 700,000,000.*

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

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

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

The actual sales to the Parent Group for the year ended 31 December 2017 was approximately RMB 463,840,000.

Framework purchase agreement

The Company entered into a framework purchase agreement with SE Corporation on 14 November 2016, pursuant to which the Group agrees to purchase, on a nonexclusive basis, certain component parts, such as turbine blades, coupling, AC motor and emergency trip control cabinet, automatic instruments, other mechanical equipment and raw materials (including copper wires and insulation materials) from the Parent Group. Pursuant to the agreement, the annual cap of the relevant purchases for the year ended 31 December 2017 was estimated to be RMB 700,000,000.

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

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

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

The actual purchase from the Parent Group for the year ended 31 December 2017 was approximately RMB 105,900,000.

Framework financial services agreement

On 14 November 2016, Shanghai Electric Group Finance Co., Ltd. ("Finance Company"), a subsidiary of the Company, entered into various financial services agreements with SE Corporation, pursuant to which Finance Company provides deposit and loan services to the Parent Group.

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

Continuing Connected Transactions (continued)

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

Framework deposit agreement

On 14 November 2016, Finance Company entered into a framework deposit agreement with SE Corporation in relation to the deposit services provided by Finance Company. Pursuant to the agreement, the approved annual cap, representing the maximum daily balance of funds (including interests) that may be deposited, for the year ended 31 December 2017 was estimated to be RMB7,500,000,000. The interest rates offered by Finance Company for the deposits placed by the Parent Group shall be:

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

The actual daily balance of funds from the Parent Group for the year ended 31 December 2017 did not exceed the approved annual cap of RMB 7,500,000,000. Besides, the Parent Group received interest income of RMB 18,090,000 for the deposits from Finance Company for the year ended 31 December 2017.

Framework loan agreement

On 14 November 2016, Finance Company entered into a framework loan agreement with SE Corporation in relation to the loan and bills services provided by Finance Company and the payment shall be in accordance with the face amount of the instrument. Pursuant to the agreement, the approved annual cap, representing the maximum daily balance of loans that may be extended and discounted bills that may be purchased (including interests), for the year ended 31 December 2017 was estimated to be RMB7,500,000,000. The interest rates offered by Finance Company for all loan services and purchases of discounted bills provided to the Parent Group shall be:

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

The actual daily balance of outstanding loans and discounted bills from the Parent Group in the year ended 31 December 2017 did not exceed the approved annual cap of RMB7,500,000,000. Besides, the Parent Group paid interest of RMB239,570,000, which was derived from loans and discounted bills, to Finance Company for the year ended 31 December 2017.

Framework guarantee agreement

On 17 February 2017, the Company entered into a framework guarantee agreement with SE Corporation. According to such agreement, Finance Company affiliated to the Company will provide guarantee services to the parent group in the form of issuing electronic bank acceptance. Pursuant to the agreement, the approved annual cap for the year ended 31 December 2017 was estimated to be *RMB62,000,000.*

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

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

The term of the framework guarantee agreement is two year, renewable at the option of the Company by giving three months' written notice prior to the expiry of the agreement and may be terminated by either party to the agreement by giving three months' written notice.
The actual guarantee services to the Parent Group did not exceed the approved annual cap of RMB62,000,000 in the year ended 31 December 2017.

Continuing connected transactions with Siemens

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

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

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

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

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

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

The actual purchase from the Siemens Group for the year ended 31 December 2017 was approximately RMB 1,158,440,000.

Continuing Connected Transactions (continued)

Framework purchase agreement with Mitsubishi Electric

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

SMEC entered into a framework purchase agreement with MESMEE on 28 March 2013, in relation to the purchase of certain elevators, related components and services from MESMEE by SMEC, and renewed the framework purchase agreement on 14 November 2016.

Pursuant to the agreement, the annual caps of the relevant purchases for the three years ended 31 December 2019 were estimated to be RMB 4,000,000,000, RMB 4,500,000,000 and RMB 5,000,000,000, respectively. The price of products to be purchased from MESMEE is determined principally at arm' s length by commercial negotiations in accordance with general principles of fairness and reasonableness with reference to the market price.

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

The term of the framework purchase agreement is three years commencing on 14 November 2016, renewable at the option of the Company by giving three months' notice prior to the expiry of the agreement.

The actual purchases from MESMEE by the Group for the year ended 31 December 2017 were RMB2,537,000,000.

Framework sales agreement with SMEPC

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

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

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

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

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

The sales of the Group to the SMEPC Group is RMB 2,384,390,000 for the year ended 31 December 2017.

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

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

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

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

Discloseable Transactions and Connected Transactions

Assets Restructuring and Placing of A Shares

On 14 November 2016, this assets reorganization and A shares placement was approved at the 37th meeting of the 4th session of Board of the Company. According to the Notice on Amending the Implementation Rules for Non-public Issuance of Listed Companies and relevant requirements issued by China Securities Regulatory Commission in February 2017, the Company revised the original A Share Placing Plan. On 17 March 2017, the revised relevant resolutions of assets reorganization and A shares placement (hereinafter referred to as the "Transaction") was considered and approved at the 42nd meeting of the 4th session of Board of the Company. On 8 May 2017, the Transaction was considered and approved at the Company's 2017 first extraordinary general meeting and H Share Class Meeting.

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

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

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

previous transactions was more than 5% but less than 25%, thus constituted a disclosable transaction under the Listing Rules. Since SEC is a connected person of the Company, the Transaction also constituted a connected transaction under the Listing Rules in Hong Kong.

On 31 July 2017, the Company received the "Approval for Issuance of Shares by Shanghai Electric Group Company Limited to Shanghai Electric (Group) Corporation for Assets Acquisition as well as Supporting Funds Raising" (Zheng Jian Xu Ke [2017] No. 1390) from the CSRC, therefore the asset reorganization and A-share placement were officially approved.

As of 12 October 2017, the Company completed the asset reorganization and issued a total of 877,918,006 A-shares at RMB 7.55 per A share.

As of 7 November 2017, the Company completed the non-public issuance of A shares and issued a total of 416,088,765 A shares to eight specific investors at RMB 7.21 per A share.

As of the end of the reporting period, the assets reorganization and A-share share placement were completed. For details, please refer to the Company's announcements dated 14 November 2016, 17 March 2017, 31 July 2017, 12 October 2017 and 7 November 2017 and the circular dated 23 March 2017.

Significant related party transactions

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

Appointment, removal and remuneration of auditors

Particulars of change in auditors in the preceding three years	2017	2016	2015
Name of the PRC auditor	PricewaterhouseCoopers Zhong Tian LLP	PricewaterhouseCoopers Zhong Tian LLP	PricewaterhouseCoopers Zhong Tian LLP
Name of the international auditor	PricewaterhouseCoopers LLP	PricewaterhouseCoopers LLP	PricewaterhouseCoopers LLP

Unit: '000; Currency: RMB

Services provided by auditors	Remuneration
Removal of accounting firm:	No
Name of the PRC auditor	PricewaterhouseCoopers Zhong Tian LLP
Name of the international auditor	PricewaterhouseCoopers LLP
Number of years of continued services provided by auditors	4 Years
Annual audit for the Company	9,957
Statutory audit for subsidiaries	14,399
Total	24,356

	Firm Name	Remuneration
Auditors for Internal controls review	PricewaterhouseCoopers Zhong Tian LLP	2,044

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Shanghai Electric Group Company Limited

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

Opinion

What we have audited

The consolidated financial statements of Shanghai Electric Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 214, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

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

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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

- Revenue Recognition
- Provision for Onerous Contracts
- Impairment provision of trade receivables, loan receivables and lease receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Revenue Recognition	
Referring to note 2.28, note 2.30 and note 6 to the consolidated financial statements. The Group's revenue is recognised when it is probable that the economic benefits will flow to the Group, when the revenue can be measured reliably and the specific revenue recognition criteria have been met for each type of revenue of the Group. In 2017, revenue of the Group was amounted to RMB79,544 million, among which revenue from sales of goods represents approximate 76% and revenue from construction contracts represents 12%. We focused on revenue recognition related to sales of goods and construction contracts. The focus on the revenue from sales of goods is due to its huge volume. There could be potential misstatement.	For sales of goods, we have gained an understanding, evaluated the design and tested the operating effectiveness of the key controls in respect of the Group's sales transactions from customer order's approval to sales recording. We reviewed the contracts on a sampling basis and discussed with the management to understand and evaluate the revenue recognition policy of the Group by understanding and evaluating the significant risks and rewards transfer points of sales of goods. Furthermore, we tested revenue of sales of goods using sampling techniques by performing the procedures below: • examined the relevant supporting documents including sales contracts, customer orders, invoices, goods delivery notes, customers' acceptance notes, etc. • tested sales transactions recorded before and after the balance sheet date by tracing to the supporting documents including the relevant customers' acceptance notes, etc. to assess whether revenue was recognised in the correct reporting period. For revenue recognised under construction contracts, we have gained an understanding, evaluated the design and tested the operating effectiveness of the key controls in respect of the Group's process to record contract costs and contract revenue, including the controls related to recording of the actual cost incurred and the estimation of the total contract costs. We understood and compared the actual cost of the completed projects to management's prior estimation, using the sampling techniques, to assess management's experience and capability on making such accounting estimates.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Provision for Onerous Contracts	
Referring to note 2.27 and note 40 to the consolidated financial statements Macroeconomic factor, such as commodity price, and industry competition can have a significant impact on the profitability of the contracts. Management assessed at balance sheet date on whether the unavoidable costs of meeting contractual obligations have exceeded the economic benefits expected to be received, and made provision for these onerous contracts based on the estimated least net cost of exiting from the contracts. In 2017, the amount of provision for onerous contracts charged to the income statement was RMB886 million. We focus on this area due to the significance of the provision for onerous contracts to the consolidated financial statements. The estimation of the unavoidable costs to complete the contracts involve significant estimations and judgements.	We have gained an understanding, evaluated the design and tested the operating effectiveness of management's key controls over the estimated unavoidable cost of the contracts. We obtained the management's onerous contract schedule and tested the mathematical accuracy of the schedule. We tested the unavoidable contract cost using sampling techniques by performing below procedures: • checked the component of the contract cost to the supporting documents including the purchase contracts etc., to identify any missed cost components. • assessed the reasonableness of the contract cost via discussion with project engineers of the Group and reviewing the supporting documents. • assessed the reasonableness of the contract cost via comparing the contract cost with the actual total cost of similar projects. Based on the work we performed, we noted that the estimations and judgements applied in provision for onerous contracts were supported by available information.

Key Audit Matter	How our audit addressed the Key Audit Matter
3. Impairment provision of trade receivables, loan receivables and lease receivables	
Referring to note 2.13.4, note 2.19, note 22 and note 28 to the consolidated financial statements. As at 31 December 2017, the net carrying amount of trade receivables of the Group was RMB 27,906 million in which the accumulated provisions for impairment RMB 6,967 million were recorded. The provision for trade receivables with individual significant amount and those not individually significant but subject to separate assessment was assessed individually based on objective evidence of impairment, while provision for trade receivables with amounts not individually significant and those receivables had been individually assessed for impairment and had not been found impaired were assessed collectively by grouping them under similar credit risk characters, aging analysis method was applied for such provision calculation.	We understood and evaluated management's design and tested the operating effectiveness of key controls over the Group's assessment process in relation to the recoverability of trade receivables, loan and lease receivables balance and its determination of impairment provision of receivables. Our work on assessing the impairment provision for trade receivables also included: • confirming the balances with customers on a sample basis; • comparing subsequent collections with management's historical planned settlement schedule on a sample basis; obtaining management's assessment of the collectability (both amount and timing) of the receivables subject to separate assessment for provision for impairment, and corroborating management's assessment against available evidences, including interviewing with sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to the existence of disputes with customers on a sample basis; • obtaining management's calculation of the collective assessment provision based on summary of groups of receivables with similar credit risk characteristics (e.g., aging, in the same country or entities within the same group); - testing the accuracy of management's aging analysis of trade receivable balances on a sample basis; - evaluating the appropriateness of the grouping basis; - assessing the reasonableness of calculation percentages through consideration of the historical loss experience and comparing with the comparable companies within the same industry; • testing the mathematical accuracy of the calculation; • checking relevant supporting documents and comparing with available external evidence where necessary for the receivables that were written off.

Key Audit Matter	How our audit addressed the Key Audit Matter
3.Impairment provision of trade receivables, loan receivables and lease receivables (continued)	
As at 31 December 2017, the net carrying amounts of Group's loan receivables and lease receivables were RMB6,969 million and RMB11,387 million respectively, in which accumulated allowance for impairment losses of RMB515 million and RMB629 million were recorded. Specific provision is made for lease receivables and loan receivables with objective evidence of impairment. The specific provision is measured as the difference between the receivables' carrying amount and the estimated future cash flows discounted at the original effective interest rate, by considering the lessee/borrower's or the guarantor's future payment ability and the estimated disposal value of the leased or mortgage assets. Receivables for which no specific provision is made are grouped by credit risk characteristics and collectively assessed for impairment. Management uses models based on the similarity of credit risk. Key assumptions applied in the models included historical loss experience, loss emergence period, risk adjustments for specific industries, regions and changes of macroeconomic environment. We focused on these areas due to their significance to the consolidated financial statements and significant management's judgements were involved in the assessment.	Our work on assessing the impairment provision for lease and loan receivables also included: • confirming balances with customers on a sample basis; • performing independent credit reviews of lease and loan receivables on a sample basis, considering the credit profiles of the related lessee/borrower, guarantors and the collateral, as well as external evidence and factors, to assess whether management's identification of impaired receivables was appropriate ; • for specific provision, examining, on a sample basis, the forecasts of future cash flows prepared by management, including assessment of the lessee/borrower or the guarantor's solvency by review of their financial statements; and comparison of the estimated disposal value of the leased or mortgage assets against the market price of similar assets. • for collective assessment provision, testing the mathematical accuracy of the calculation; assessing the appropriateness of impairment models and the reasonableness of key inputs and assumptions applied, including historical loss experience, loss emergence period and risk adjustments for specific industries, regions and changes of macroeconomic environment based on our industry knowledge and available market information We found that management's judgements on assessment of impairment provision of trade receivables, loan receivables and finance lease receivables provision are supported by the available evidences.

OTHER INFORMATION

The directors of the Company are responsible for the other information set out in the Company's 2017 Annual Report. The other information comprises the information included in chairman's statement (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the corporate profile, five-year financial summary, key accounting data and financial indicators, share capital structure, disclosure of interests, directors, supervisors, senior management and staff, corporate governance report, summary of general meetings, report of directors and significant events which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the corporate profile, five-year financial summary, key accounting data and financial indicators, share capital structure, disclosure of interests, directors, supervisors, senior management and staff, corporate governance report, summary of general meetings, report of directors and significant events, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligation.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000
			(Restated, Note 49)
Revenue	6	79,543,794	88,507,384
Cost of sales	8	(63,701,557)	(71,657,423)
Gross profit		15,842,237	16,849,961
Other income	7	683,383	724,055
Other gains - net	7	1,656,244	914,596
Other income and other gains - net	7	2,339,627	1,638,651
Distribution costs	8	(2,254,100)	(2,552,732)
Administrative expenses	8	(11,446,749)	(10,482,217)
Operating profit		4,481,015	5,453,663
Finance income	10	198,847	272,409
Finance costs	10	(657,105)	(626,737)
Finance costs - net	10	(458,258)	(354,328)
Share of net profits of investments accounted for using the equity method :			
Joint ventures	20	570,118	266,476
Associates	21	772,374	559,542
Profit before income tax		5,365,249	5,925,353
Income tax expense	11	(522,422)	(1,283,133)
Profit for the year		4,842,827	4,642,220
Profit is attributable to:			
Owners of Shanghai Electric Group Company Limited	12	2,626,668	2,354,526
Non-controlling interests		2,216,159	2,287,694
		4,842,827	4,642,220

EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY (expressed in RMB per share)

	Notes	2017	2016
Basic earnings per share	12	18.72 cents	17.14 cents
Diluted earnings per share	12	18.72 cents	17.14 cents

The notes on pages 81 to 214 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
		(Restated, Note 49)
Profit for the year	4,842,827	4,642,220
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Change in the fair value of available-for-sale financial assets	(1,151,531)	58,513
Cash flow hedges	29,730	18,627
Exchange differences on translation of foreign operations	(45,614)	52,184
Others	-	584
	(1,167,415)	129,908
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit obligations	4,042	(5,402)
Other comprehensive income for the year, net of tax	(1,163,373)	124,506
Total comprehensive income for the year	3,679,454	4,766,726
Attributable to:		
– Owners of Shanghai Electric Group Company Limited	1,598,416	2,462,977
– Non-controlling interests	2,081,038	2,303,749
	3,679,454	4,766,726

The notes on pages 81 to 214 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	As at 31 December	
		2017 RMB'000	2016 RMB'000
			(Restated, Note 49)
Assets			
Non-current assets			
Property, plant and equipment	14	16,468,912	15,501,009
Investment properties	15	832,508	944,490
Prepaid land lease payments	16	5,828,581	4,361,680
Goodwill	17	2,648,897	2,554,827
Intangible assets	18	1,393,008	1,420,863
Investments in joint ventures	20	4,395,635	3,788,258
Investments in associates	21	6,309,326	5,475,423
Available-for-sale investments	23	1,393,811	1,741,808
Deferred tax assets	24	3,982,674	3,050,997
Loans and lease receivables	22	7,399,416	7,974,836
Other non-current assets	25	4,335,730	2,112,498
Total non-current assets		54,988,498	48,926,689
Current assets			
Inventories	26	29,057,351	22,185,330
Construction contracts	27	5,416,449	4,830,046
Trade receivables	28	27,905,847	26,499,880
Loans and lease receivables	22	10,956,118	10,103,686
Discounted bills receivable	29	179,926	189,052
Bills receivable	30	10,106,004	7,241,022
Prepayments, deposits and other receivables	31	12,170,116	11,206,735
Investments	32	11,325,754	10,501,914
Derivative financial instruments	33	15,604	561
Due from the Central Bank*	34	3,267,497	3,197,369
Restricted deposits	34	565,322	801,444
Time deposits with original maturity over three months	34	10,922,202	9,720,983
Cash and cash equivalents	34	22,469,071	31,196,279
Total current assets		144,357,261	137,674,301
Total assets		199,345,759	186,600,990

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2017

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000 (Restated, Note 49)
Equity and liabilities			
Liabilities			
Non-current liabilities			
Bonds	41	10,058,027	11,148,377
Bank and other borrowings	39	4,144,184	3,370,610
Provisions	40	243,817	223,712
Government grants	36	1,055,960	967,231
Other non-current liabilities	42	1,464,926	1,759,264
Deferred income tax liabilities	24	337,530	337,958
Total non-current liabilities		17,304,444	17,807,152
Current liabilities			
Bonds	41	1,599,506	499,043
Trade payables	35	33,740,212	32,208,257
Bills payable	35	7,144,728	6,335,179
Government grants	36	439,973	440,190
Other payables and accruals	37	56,627,701	57,097,255
Derivative financial instruments	33	8,537	31,505
Customer deposits	38	3,324,568	2,426,863
Bank and other borrowings	39	3,224,101	2,582,046
Taxes payable		1,201,062	979,050
Provisions	40	4,009,340	3,775,623
Total current liabilities		111,319,728	106,375,011
Total liabilities		128,624,172	124,182,163

CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2017

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000 (Restated, Note 49)
Equity			
Equity attributable to owners of the Company			
Share capital	43	14,725,181	13,431,156
Reserves	44	20,637,494	16,435,066
Retained earnings		20,174,408	18,033,639
		55,537,083	47,899,861
Non-controlling interests		15,184,504	14,518,966
Total equity		70,721,587	62,418,827
Total equity and liabilities		199,345,759	186,600,990

The notes on pages 81 to 214 are an integral part of these consolidated financial statements.

The financial statements on pages 72 to 214 were approved by the Board of Directors on 29 March 2018 and were signed on its behalf.

Mr. Zheng Jianhua
Chairman and CEO

Mr. Li Jianjin
Non-executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

		Attributable to owners of the Shanghai Electric Group Company Limited										
	Note	Share capital RMB'000	Capital reserve RMB'000	Surplus reserves RMB'000	Defined benefit plans reserve RMB'000	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange difference reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Banlance at 1 January 2017		13,431,156	12,809,023	2,707,355	2,119	(1,367)	1,023,851	(105,915)	18,033,639	47,899,861	14,518,966	62,418,827
Profit for the year		-	-	-	-	-	-	-	2,626,668	2,626,668	2,216,159	4,842,827
Other comprehensive income:												
Remearsurement of defined benefit plans		-	-	-	1,697	-	-	-	-	1,697	2,345	4,042
Revaluation – gross		-	-	-	-	-	146,215	-	-	146,215	5,169	151,384
Reclassification to profit or loss – gross		-	-	-	-	-	(1,237,140)	-	-	(1,237,140)	(158,128)	(1,395,268)
Tax impact		-	-	-	-	-	80,900	-	-	80,900	11,453	92,353
Cash flow hedges, net of tax		-	-	-	-	28,884	-	-	-	28,884	846	29,730
Currency translation differences		-	-	-	-	-	-	(48,808)	-	(48,808)	3,194	(45,614)
Total comprehensive income		-	-	-	1,697	28,884	(1,010,025)	(48,808)	2,626,668	1,598,416	2,081,038	3,679,454
Convertible bond - equity component		18	166	-	-	-	-	-	-	184	-	184
Issue of ordinary shares related to business combination under common control	44	877,918	1,927,644	-	-	-	-	-	-	2,805,562	-	2,805,562
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	(1,418,040)	(1,418,040)
Issue of ordinary share related to private offering	44	416,089	2,568,911	-	-	-	-	-	-	2,985,000	-	2,985,000
Appropriation to general risk reserve		-	-	363,509	-	-	-	-	(363,509)	-	-	-
Transfer from retained earnings		-	-	122,390	-	-	-	-	(122,390)	-	-	-
Others		-	248,060	-	-	-	-	-	-	248,060	2,540	250,600
At 31 December 2017		14,725,181	17,553,804	3,193,254	3,816	27,517	13,826	(154,723)	20,174,408	55,537,083	15,184,504	70,721,587

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

		Attributable to owners of the Shanghai Electric Group Company Limited										
	Note	Share capital RMB'000	Capital reserve RMB'000	Surplus reserves RMB'000	Defined benefit plans reserve RMB'000	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange difference reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2015		12,824,305	7,655,046	2,260,145	-	(17,890)	988,378	(18,109)	15,577,207	39,269,082	12,718,970	51,988,052
Business combination under common control		-	2,106,571	-	4,668	(1,715)	-	(144,511)	1,215,812	3,180,825	1,854,816	5,035,641
Balance at 1 January 2016		12,824,305	9,761,617	2,260,145	4,668	(19,605)	988,378	(162,620)	16,793,019	42,449,907	14,573,786	57,023,693
Profit for the year		-	-	-	-	-	-	-	2,354,526	2,354,526	2,287,694	4,642,220
Other comprehensive income												
Remearsurement of defined benefit plans		-	-	-	(2,549)	-	-	-	-	(2,549)	(2,853)	(5,402)
Revaluation – gross		-	-	-	-	-	67,695	-	-	67,695	71,201	138,896
Reclassification to profit or loss – gross		-	-	-	-	-	(112,360)	-	-	(112,360)	(54,677)	(167,037)
Tax impact		-	-	-	-	-	80,138	-	-	80,138	6,516	86,654
Cash flow hedges, net of tax		-	-	-	-	18,238	-	-	-	18,238	389	18,627
Currency translation differences		-	-	-	-	-	-	56,705	-	56,705	(4,521)	52,184
Others		-	584	-	-	-	-	-	-	584	-	584
Total comprehensive income		-	584	-	(2,549)	18,238	35,473	56,705	2,354,526	2,462,977	2,303,749	4,766,726
Disposal of subsidiaries		-	563,368	-	-	-	-	-	-	563,368	(133,685)	429,683
Convertible bond - equity component		8	72	-	-	-	-	-	-	80	-	80
Issue of ordinary shares related to business combination under common control		606,843	2,478,317	-	-	-	-	-	-	3,085,160	-	3,085,160
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	(1,564,571)	(1,564,571)
Dividend distribution to original shareholders under common control		-	-	-	-	-	-	-	(666,696)	(666,696)	-	(666,696)
Transaction with non-controlling interests		–	–	-	–	–	–	–	–	–	(668,918)	(668,918)
Transfer from retained earnings		–	-	190,620	–	–	–	-	(190,620)	–	–	-
Appropriation to general risk reserve		-	-	256,590	-	-	-	-	(256,590)	-	-	-
Others		-	5,065	-	-	-	-	-	-	5,065	8,605	13,670
At 31 December 2016		13,431,156	12,809,023	2,707,355	2,119	(1,367)	1,023,851	(105,915)	18,033,639	47,899,861	14,518,966	62,418,827

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000 (Restated, Note 49)
Cash flows from operating activities			
Cash (outflow)/inflow from operations	45	(6,379,173)	12,221,496
Income taxes paid		(1,145,844)	(1,505,979)
Net cash (outflow)/inflow from operating activities		(7,525,017)	10,715,517
Cash flows from investing activities			
Interest received		1,037,858	667,705
Finance lease income		734,444	729,593
Dividends from joint ventures		160,941	380
Dividends from associates		593,403	644,706
Dividends from other investments		133,788	172,002
Payments for property, plant and equipment		(2,767,372)	(1,579,786)
Payments for investment properties		(75,290)	(204,228)
Realised fair value gains on financial assets at fair value through profit or loss		(14,698)	13,955
Payments for land lease		(121,132)	(27,089)
Proceeds from sales of property, plant and equipment		763,128	181,858
Proceeds from sales of subsidiaries		27,761	139,706
Payment for acquisition of subsidiaries, net of cash acquired		(77,927)	(1,181,961)
Capital injection in joint ventures		-	(41,509)
Capital injection in associates		(634,090)	(572,588)
Proceeds from disposal of associates		51,978	236,698
(Increase)/decrease in non-current other investments		(1,422,886)	112,890
Payments for other intangible assets		(42,837)	(49,018)
Proceeds from disposal of other intangible assets		10,594	4,670
Proceeds from disposal of prepaid land lease payments		208,032	1,694
Payment for acquisition of non-controlling interests		-	(56,420)
Payment for acquisition of other non-current assets		(160,432)	(21,164)
Decrease/(Increase) in restricted deposits		236,122	(71,581)
Increase in non-restricted time deposits with original maturity of over three months when acquired		(1,201,219)	(6,345,146)
Increase in loans and lease receivables		(785,995)	(2,090,349)
Decrease in discounted bills receivable		7,951	181,593
Increase in an amount due from the Central Bank		(70,128)	(133,734)
Decrease/(increase) in reverse repurchase agreements		4,817,610	(1,722,900)
Increase in short-term investments		(5,665,106)	(20,066)
Others		(71,925)	21,305
Net cash outflow from investing activities		(4,327,427)	(11,008,784)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
		(Restated, Note 49)
Cash flows from financing activities		
Capital injection by non-controlling interests	-	77,000
Proceeds from issues of shares and other equity securities	3,286,897	289,269
Proceeds from bank and other borrowings	4,720,350	4,754,524
Repayments of bank and other borrowings	(3,338,501)	(2,711,332)
Repayment of bonds	(525,400)	(436,506)
Dividends paid to non-controlling interests	(1,466,268)	(1,621,470)
Increase/(decrease) in customer deposits	897,705	(2,746,590)
Interest paid	(409,773)	(344,092)
Others	32,671	(640,000)
Net cash inflow/(outflow) from financing activities	3,197,681	(3,379,197)
Net decrease in cash and cash equivalents	(8,654,763)	(3,672,464)
Cash and cash equivalents at beginning of year	31,196,279	34,741,574
Effect of exchange rate changes on cash and cash equivalents, net	(72,445)	127,169
Cash and cash equivalents at end of year	22,469,071	31,196,279

The notes on pages 72 to 214 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

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

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

- design, manufacture and sale of nuclear island equipment products, wind power equipment products and heavy machinery including large forging components, and provision of solution package for comprehensive utilisation of solid waste, sewage treatment, power generation environment protection and distributed energy systems;

- design, manufacture and sale of thermal power equipment products and corollary equipment, nuclear island equipment products and power transmission and distribution equipment products;

- design, manufacture and sale of elevators, automation equipment, electrical motors, machine tools, components and other electromechanical equipment products; and

- provision of integrated engineering services for power station projects and other industries, financial products and services, international trading services, financial lease and related consulting services and other functional services such as insurance brokerage services, etc.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Shanghai Electric Group Company Limited and its subsidiaries.

2.1.1 Basis of preparation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 New accounting policy and disclosure requirement

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to HKAS 12, and
- Disclosure initiative – amendments to HKAS 7.

The Group also elected to adopt the following amendments early.

- Classification and Measurement of Share-based Payment Transactions – Amendments to HKFRS 2
- Annual Improvements to HKFRS Standards 2014-2016 Cycle, and
- Transfers of Investment Property – Amendments to HKAS 40.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 45(b).

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The majority of the Group's debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets. However, certain investments do not meet the criteria to be classified either as at FVOCI or at amortised cost will have to be reclassified to financial assets at fair value through profit or loss (FVPL). Related fair value gains will have to be transferred from the available-for-sale financial investment revaluation reserve to retained earnings on 1 January 2018.

The other financial assets held by the Group include: equity investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under HKFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 New accounting policy and disclosure requirement (continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for trade debtors and in relation to debt investments held at amortised cost.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of hedging reserve.

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 New accounting policy and disclosure requirement (continued)

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and the application of HKFRS 15 will not significantly impact the revenue recognition for the Group.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Groups operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB 980,708,000.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date/Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING

(a) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (2.2(d) below), after initially being recognised at cost.

(c) Joint arrangements

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Interests in joint ventures are accounted for using the equity method (see 2.2(d) below), after initially being recognised at cost in the consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING (CONTINUED)

(d) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

(e) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Shanghai Electric Group Company Limited.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 BUSINESS COMBINATIONS

(a) Business combination under common control

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

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

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

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

(b) Business combination not under common control

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 BUSINESS COMBINATIONS (CONTINUED)

(b) Business combination not under common control (continued)

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

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

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

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

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

2.4 SEPARATE FINANCIAL STATEMENTS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

2.6 SEGMENT REPORTING

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'other gains - net'.

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(c) Group companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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

(d) Disposal of foreign operation and partial disposal

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net' in the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 INVESTMENT PROPERTY

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

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

2.10 INTANGIBLE ASSETS

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

(a) Goodwill

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

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

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

(b) Patents and licences

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

(c) Technology know-how

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 INTANGIBLE ASSETS (CONTINUED)

(d) Concession intangible assets

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

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

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

(e) Research and development costs

All research costs are charged to the consolidated statement of profit or loss as incurred.

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

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

2.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS

2.13.1 Classification

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

2.13.1 Classification (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (Note 2.19), including trade receivables, loans and lease receivables, bills receivable and due from Central Bank, 'cash and cash equivalents' (Note 2.20), and 'restricted deposits' in the consolidated balance sheet.

(c) Available-for-sale financial assets

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

2.13.2 Recognition and measurement

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

2.13.3 Derecognition of financial assets

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

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

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

2.13.4 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

2.13.4 Impairment of financial assets (continued)

(b) Assets classified as available for sale

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

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

In the case of equity investments classified as available for sale, a significant(more than 30% of investment cost) or prolonged(longer than one year) decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.14 FINANCIAL LIABILITIES

2.14.1 Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, customer deposits, bonds, derivative financial instruments and bank and other borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 FINANCIAL LIABILITIES (CONTINUED)

2.14.2 Subsequent measurement

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

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

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

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

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

(b) Loans and borrowings

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

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

(c) Financial guarantee contracts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 FINANCIAL LIABILITIES (CONTINUED)

2.14.3 Derecognition of financial liabilities

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

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

2.15 OFFSETTING OF FINANCIAL INSTRUMENTS

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

2.16 REVERSE REPURCHASE TRANSACTIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

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

(a) Fair value hedge

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

(b) Cash flow hedge

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(c) Net investment hedge

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

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

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

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in statement of profit or loss and are included in other gains.

2.18 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis or individual basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is based on estimated selling prices in the ordinary course of business less the estimated costs to be incurred to completion and the estimated costs necessary to make the sale.

2.19 TRADE AND OTHER RECEIVABLES

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

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

2.20 CASH AND CASH EQUIVALENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 SHARE CAPITAL

Ordinary shares are classified as equity.

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

2.22 TRADE AND OTHER PAYABLES

Trade and other payables are obligations to pay for goods or services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.23 BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 BORROWING COSTS

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

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

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

2.25 CURRENT AND DEFERRED INCOME TAX

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 EMPLOYEE BENEFITS

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as other payables and accruals in the balance sheet.

(b) Pension obligations

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 EMPLOYEE BENEFITS (CONTINUED)

(c) Termination benefits

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

(d) Defined benefit

Payments to defined contributions retirement benefits plans, state-managed retirement benefit schemes and Mandatory Provident Fund Scheme ("MPF Scheme"), are recognised as an expense when employees have rendered service entitling them to the contributions. For defined benefit retirement 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, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and 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 apply 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 cost (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 Group presents the first two component of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs. The retirement benefit obligation recognised in the consolidated balance sheet represents the actual deficit or surplus in the Group's defined benefit plan. Any surplus resulting from the calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contribution to the plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 PROVISIONS

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.28 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 GOVERNMENT GRANTS

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

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

2.30 CONSTRUCTION CONTRACTS

A construction contract is defined by HKAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.31 CONTRACTS FOR SERVICES

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.32 INTEREST INCOME

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

2.33 LEASES

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

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

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

2.34 DIVIDEND DISTRIBUTION

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

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

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

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

The main risks arising from the Group's financial instruments are market risk and financial risk. The Group's policies for managing each of these risks are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.17 to the financial statements.

(a) Market risk

(i) Foreign exchange risk

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

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

At 31 December 2017, if RMB Yuan had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been RMB550,946,000 (2016: RMB448,452,000) higher/lower. At 31 December 2017, If RMB Yuan had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been RMB295,424,000 (2016: RMB321,611,000) lower/higher. At 31 December 2017, if RMB Yuan had weakened/strengthened by 10% against the JPY with all other variables held constant, post-tax profit for the year would have been RMB5,628,000 (2016: RMB43,050,000 lower/higher) higher/lower. At 31 December 2017, If RMB Yuan had weakened/strengthened by 10% against the HKD with all other variables held constant, post-tax profit for the year would have been RMB2,883,000 (2016: RMB5,301,000) higher/lower.

(ii) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments and trust product classified as investments at fair value through profit or loss and available-for-sale investments (Notes 23 and 32) as at 31 December 2017. The Group's listed investments are listed on the Shenzhen Stock Exchange ("SZSE"), the Shanghai Stock Exchange ("SHSE") and National Equities Exchange and Quatations ("NEEQ") are valued at quoted market prices at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(ii) Equity price risk (continued)

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

	Carrying amount	**Increase/ (decrease) in profit after tax**	**Increase/ (decrease) in other comprehensive income**
	RMB'000	**RMB'000**	**RMB'000**
2017			
Equity investments:			
Shenzhen – Available-for-sale	127,587	-	4,785
– At fair value through profit or loss	14,456	542	-
Shanghai – Available-for-sale	582,925	-	21,860
– At fair value through profit or loss	40,133	1,505	-
National Equity Exchange and Quotation – available-for-sale	55,142	-	2,068
2016 (Restated)			
Equity investments:			
Shenzhen – Available-for-sale	70,135	-	2,630
– At fair value through profit or loss	7,733	290	-
Shanghai – Available-for-sale	674,978	-	25,312
– At fair value through profit or loss	25,942	973	-
National Equity Exchange and Quotation – available-for-sale	119,211	-	4,470

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(iii) Interest rate risk

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

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

Debt investments

	2017	
	At fair value through profit or loss	**Available-for-sale**
	RMB'000	**RMB'000**
Within 1 year	21,401	-
1 to 5 years	-	174,247
More than 5 years	-	-
Total	21,401	174,247
Effective interest rate (% per annum)	0.2-1.0	4.00-6.06

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Other financial assets

	2017		
	Loans receivables	Discounted bills receivables	Time deposits
	RMB'000	RMB'000	RMB'000
Within 1 year	6,659,760	179,926	16,700,976
1 to 5 years	824,230	-	-
Total	7,483,990	179,926	16,700,976
Effective interest rate (% per annum)	1.95-5.58	3.18-7.59	1.54-6.40

	2016 (Restated)		
	Loans receivables	Discounted bills receivables	Time deposits
	RMB'000	RMB'000	RMB'000
Within 1 year	5,833,210	189,052	14,163,537
1 to 5 years	1,032,380	-	-
Total	6,865,590	189,052	14,163,537
Effective interest rate (% per annum)	1.95-5.58	3.18-4.62	0.35-2.31

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(iii) interest rate risk (continued)

Financial liabilities

	2017	
	Bank and other borrowings with variable rates RMB'000	Customer deposits* RMB'000
Within 1 year	209,196	3,324,568
1 to 5 years	627,133	-
Total	836,329	3,324,568
Effective interest rate (% per annum)	1.42-5.04	0.35-2.31

	2016 (Restated)	
	Bank and other borrowings with variable rates RMB'000	Customer deposits* RMB'000
Within 1 year	153,880	2,426,863
1 to 5 years	693,557	-
Total	847,437	2,426,863
Effective interest rate (% per annum)	0.5-7.0	0.35-3.75

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(iii) interest rate risk (continued)

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax	Increase/ (decrease) in other comprehensive income
		RMB'000	RMB'000
2017			
RMB	15	33,825	224
RMB	(15)	(33,825)	(224)
USD	15	(52)	-
USD	(15)	52	-
EUR	15	(848)	-
EUR	(15)	848	-
2016 (Restated)			
RMB	15	43,263	466
RMB	(15)	(43,263)	(466)
USD	15	(56)	-
USD	(15)	56	-
EUR	15	(859)	-
EUR	(15)	859	-

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(b) Credit risk

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

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

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group does not have a significant concentration of credit risk in relation to the trade receivables as the trade receivables due from the five largest customers accounted for only 19.98% (2016: 17.43%) of the Group's trade receivables as at 31 December 2017.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(c) Liquidity risk

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

	2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	26,278,203	3,537,206	3,924,803	-	-	33,740,212
Bills payable	-	3,340,992	3,803,736	-	-	7,144,728
Financial liabilities included in other payables and accruals	8,093,619	584,811	723,586	236,277	-	9,638,293
Customer deposits	2,974,068	165,145	186,149	-	-	3,325,362
Bank and other borrowings	-	751,695	2,562,476	3,108,341	1,852,026	8,274,538
Financial liabilities included in other non-current liabilities	-	-	335,614	895,146	48,560	1,279,320
Bonds	-	438,986	1,316,959	10,941,763	-	12,697,708
Derivative financial instruments	-	-	8,537	-	-	8,537
	37,345,890	8,818,835	12,861,860	15,181,527	1,900,586	76,108,698

	2016(Restated)					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	26,245,979	4,454,286	1,507,992	-	-	32,208,257
Bills payable	-	2,531,090	3,804,089	-	-	6,335,179
Financial liabilities included in other payables and accruals	8,870,013	314,884	1,078,028	180,442	-	10,443,367
Customer deposits	2,100,733	199,174	127,575	-	-	2,427,482
Bank and other borrowings	-	437,265	2,271,302	3,574,710	56,566	6,339,843
Financial liabilities included in other non-current liabilities	-	-	202,398	1,257,030	28,233	1,487,661
Bonds	-	177,638	532,914	12,388,489	-	13,099,041
Derivative financial instruments	-	-	31,505	-	-	31,505
	37,216,725	8,114,337	9,555,803	17,400,671	84,799	72,372,335

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

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

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

	2017 RMB'000	2016 RMB'000 (Restated)
Bank and other borrowings	7,368,285	5,952,656
Bonds	11,657,533	11,647,420
Customer deposits	3,324,568	2,426,863
Debt	22,350,386	20,026,939
Total equity	70,721,587	62,418,827
Total equity and net debt	93,071,973	82,445,766
Gearing ratio	24.01%	24.29%

3.3 FAIR VALUE ESTIMATION

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

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000 (Restated)	2017 RMB'000	2016 RMB'000 (Restated)
Financial liabilities				
Non-current portion of bank and other borrowings	4,144,184	3,370,610	4,056,097	3,167,026
Non-current portion of bonds	10,058,027	11,148,377	10,941,763	11,976,762
	14,202,211	14,518,987	14,997,860	15,143,788

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

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

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

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

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

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

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

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

As at 31 December 2017, the marked to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(a) Fair value hierarchy

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

(i) Financial assets measured at fair value:

	As at 31 December 2017 Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	**Significant observable inputs (level 2) RMB'000**	**Significant unobservable inputs (level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments:				
Equity investments	765,654	-	-	765,654
Debt investments	-	174,247	-	174,247
Investment funds	499,583	-	-	499,583
Investment products	-	8,512,412	-	8,512,412
Investments at fair value through profit or loss:				
Equity investments	54,589	-	-	54,589
Debt investments	21,401	-	-	21,401
Convertible debenture arrangements	-	441,633	-	441,633
Investment funds	5	-	-	5
Derivative financial instruments	-	15,604	-	15,604
	1,341,232	9,143,896	-	10,485,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(a) Fair value hierarchy (continued)

	As at 31 December 2016 (Restated) Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investments	864,324	-	-	864,324
Debt investments	-	370,791	-	370,791
Investment funds	1,914,702	-	-	1,914,702
Investment products	-	1,269,681	-	1,269,681
Investments at fair value through profit or loss:				
Equity investments	33,675	-	-	33,675
Debt investments	40,921	-	-	40,921
Convertible debenture arrangements	-	706,797	-	706,797
Investment funds	116,402	-	-	116,402
Derivative financial instruments	-	561		561
	2,970,024	2,347,830	-	5,317,854

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(a) Fair value hierarchy (continued)

(ii) Financial liabilities measured at fair values:

	As at 31 December 2017 Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Derivative financial instruments	-	8,537	-	8,537

	As at 31 December 2016 (Restated) Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Derivative financial instruments	-	31,505	-	31,505

(iii) Liabilities for which fair value are disclosed:

	As at 31 December 2017 Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Non-current portion of interesting-bearing bank and other borrowings	-	4,144,184	-	4,144,184
Non-current portion of bonds	-	10,058,027	-	10,058,027

	As at 31 December 2016 (Restated) Fair value measurement using			
	Quoted prices in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
Non-current portion of interesting-bearing bank and other borrowings	-	3,370,610	-	3,370,610
Non-current portion of bonds	-	11,148,377	-	11,148,377

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB2,648,897,000 (2016: RMB2,554,827,000). More details are given in Note 17 to the financial statements.

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

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

(c) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2017 was RMB3,982,674,000(2016: RMB3,050,997,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2017 was RMB7,978,519,000(2016: RMB8,044,511,000). Further details are contained in Note 24 to the financial statements.

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(e) Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management's judgement and estimates. The provision for trade receivables with individual significant amount and those not individually significant but subject to separate assessment was assessed individually based on objective evidence of impairment; while provision for trade receivables with amounts not individually significant and those receivables had been individually assessed for impairment and had not been found impaired were assessed collectively by grouping them under similar credit risk characters, and provision was made by reference to aging.

Where the actual outcome of expectation in future is different from the original estimate, the differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which the estimate has been changed.

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

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

(g) Provisions

The Group makes provisions for product warranty, onerous contracts, staff early retirement and late delivery. Management estimates the related provisions based on contract terms, available knowledge and past experience. The Group recognises provisions to the extent that it has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and that the amount can be reliably estimated. The carrying amount of the provisions at 31 December 2017 was RMB4,253,157,000 (2016: RMB3,999,335,000). More details are given in Note 40 to the financial statements.

As for onerous contracts, macroeconomic factors, such as commodity price, and industry competition can have a significant impact on the profitability of the contracts. The Group assessed at balance sheet date on whether unavoidable costs of meeting contractual obligations have exceeded the economic benefits expected to be received, and made provision for these onerous contracts based on the estimated least net cost of exiting from the contracts.

(h) Useful lives of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(i) Defined benefit plan

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

(j) Revenue recognition

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

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

(k) Fair value of derivatives and other financial instruments

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

(l) Income tax

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

Certain subsidiaries were subject to a corporate income tax rate of 15% as they have been assessed as 'High-New Technology Enterprises' under the Corporate Income Tax Law as at 31 December 2017. Those subsidiaries provided income tax and recognised the deferred tax assets and liabilities at tax rate of 15%.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 JUDGEMENTS

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

Operating lease – Group as lessor

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

Consolidation of entities in which the Group holds less than 50% ownership

The Group considers that it controls Shanghai Mechanical & Electrical Industry Co., Ltd. ('SMEI') even though it owns less than 50.00% of the voting rights. This is because the Group is the single largest shareholder of SMEI with a 47.83% equity interest. The remaining 52.17% equity shares in SMEI are widely held by many other shareholders, none of whose equity shares is significant individually (since the date of the acquisition of the equity interest in SMEI by the Group). Since the date of acquisition, there has been no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

The Group considers that it controls Shanghai Prime Machinery Co., Ltd. even though it owns less than 50.00% of the voting rights. This is because the Group is the single largest shareholder of Shanghai Prime Machinery Co., Ltd. with a 47.18% equity interest. SE corporation also owns 4.44% of equity interest of Shanghai Prime Machinery Co., Ltd. The remaining 48.38% equity shares in Shanghai Prime Machinery Co., Ltd. are widely held by many other shareholders, none of whose equity shares is significant individually (since the date of the acquisition of the equity interest in Shanghai Prime Machinery Co., Ltd. by the Group). Since the date of acquisition, there has been no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

In addition, the Group considers it controls Shanghai Electric Transmission and Distribution Group Co., Ltd. even though it owns 50% of the voting rights. This is because the Group has the contractual right to acquire an additional 1% equity from the counterparty at the Group's discretion. Meanwhile, the Group controls the daily operation of Shanghai Electric Transmission and Distribution Group Co., Ltd. and therefore it has been included in the consolidation scope of the Group's consolidated financial statements.

4.3 REVISION OF ESTIMATION OF BAD DEBT PROVISION FOR LOAN RECEIVABLES OF FINANCE COMPANY

During the year of 2017, the general proportions of bad debt to loan receivables were revised. The net effect of the changes in the current financial year was a decrease in profit for the year of RMB220 million.

The proportions of bad debt to the original amount changed as follows:

Credit review for loan receivables	Proportions – before revision	Proportions – after revision
Normal	2.5%	3.0%
Special-mention	2.5%	10.0%

Since the provisions of the loans receivables of Finance Company relate to the scale and credit rating of loan assets, which Finance Company can not predict, the impact of the accounting estimates change in future cannot be reasonably forecasted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT INFORMATION

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

The details of operating segments are as follows:

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

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

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

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

(e) the 'others' segment includes components such as the central research institute and spare houses management.

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

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

5. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2017	New energy and environmental protection RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Inter segmented eliminations RMB'000	Total RMB'000
Segment revenue:								
Sales to external customers	10,054,106	21,904,082	32,562,978	12,371,800	2,638,903	11,925	-	79,543,794
Intersegment sales	964,177	4,270,164	1,006,716	1,292,523	48,341	65,610	(7,647,531)	-
Total revenue	11,018,283	26,174,246	33,569,694	13,664,323	2,687,244	77,535	(7,647,531)	79,543,794
Operating profit/(loss)	227,156	(80,949)	2,566,762	1,875,054	295,311	(573,564)	171,245	4,481,015
Finance costs - net								(458,258)
Share of profits and losses of:								
Joint ventures								570,118
Associates								772,374
Profit before tax								5,365,249
Income tax expense								(522,422)
Profit for the year								4,842,827
Assets and liabilities								
Total assets	26,104,629	64,135,894	47,618,372	82,394,440	4,726,846	33,781,049	(59,415,471)	199,345,759
Total liabilities	16,250,101	47,675,958	29,136,256	69,563,626	974,843	18,039,853	(53,016,465)	128,624,172
Other segment information:								
Capital expenditure	1,539,798	313,103	659,669	90,240	308,408	2,599,835	-	5,511,053
Depreciation and amortization	263,542	599,806	840,721	56,986	252,128	235,907	-	2,249,090
Other non-cash expenses	1,016,529	1,058,493	194,539	452	7,682	-	-	2,277,695

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2016 (Restated)	New energy and environmental protection RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Inter segmented eliminations RMB'000	Total RMB'000
Segment revenue:								
Sales to external customers	12,340,507	25,080,971	31,662,940	17,026,936	2,372,929	23,101	-	88,507,384
Intersegment sales	1,051,707	3,022,933	751,807	815,058	33,935	25,049	(5,700,489)	-
Total revenue	13,392,214	28,103,904	32,414,747	17,841,994	2,406,864	48,150	(5,700,489)	88,507,384
Operating profit/(loss)	348,837	939,706	2,500,780	1,183,926	63,414	(249,862)	666,862	5,453,663
Finance costs - net								
Share of profits and losses of:								(354,328)
Joint ventures								266,476
Associates								559,542
Profit before tax								5,925,353
Income tax expense								(1,283,133)
Profit for the year								4,642,220
Assets and liabilities								
Total assets	26,042,956	59,750,742	45,145,286	86,052,794	4,138,735	20,727,974	(55,257,497)	186,600,990
Total liabilities	16,712,434	43,012,533	27,880,298	74,112,065	574,768	15,810,206	(53,920,141)	124,182,163
Other segment information:								
Capital expenditure	1,040,146	199,711	637,919	201,064	298,307	3,009,034	-	5,386,181
Depreciation and amortization	232,211	637,308	770,009	21,848	108,040	122,018	-	1,891,434
Other non-cash expenses	915,203	748,083	190,731	138,659	4,685	-	-	1,997,361

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2017 RMB'000	2016 RMB'000 (Restated)
Mainland China	69,027,136	75,839,029
Other countries/jurisdictions	10,516,658	12,668,355
	79,543,794	88,507,384

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

(b) Non-current assets

	2017 RMB'000	2016 RMB'000 (Restated)
Mainland China	34,144,301	28,806,733
Other countries/jurisdictions	5,912,238	5,415,294
	40,056,539	34,222,027

The above non-current asset information is based on the locations of the assets and excludes financial instruments (including: available-for-sale investments, loans and lease receivables and long-term receivables of warranty and others in other non-current assets) and deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

6. REVENUE

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

An analysis of revenue is as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Revenue		
Turnover		
Sale of goods	60,763,888	69,403,750
Construction contracts	9,363,607	10,070,580
Rendering of services	6,054,055	5,226,571
	76,181,550	84,700,901
Other revenue		
Sales of raw materials	725,204	749,631
Finance lease income	734,444	729,593
Rental income under operating leases	606,320	481,453
Proceeds from sales of properties	-	782,261
Finance Company:		
Interest income on loans receivable and discounted bills receivable	241,956	239,981
Interest income from banks and other financial institutions	517,380	283,648
Others	536,940	539,916
	3,362,244	3,806,483
	79,543,794	88,507,384

7. OTHER INCOME AND OTHER GAINS, NET

	2017 RMB'000	2016 RMB'000 (Restated)
Other income		
Interest income on debt investments	350	16,349
Dividend income from equity investments and investment funds	152,406	172,002
Subsidy income	530,627	535,704
	683,383	724,055
Other gains, net		
Gains on disposal of property, plant and equipment	132,658	1,917
Gains on disposal of prepaid land lease payments	-	1,694
Gains on disposal of subsidiaries	13,647	222,690
Gains on disposal of associates	19,757	124,468
Investments at fair value through profit or loss:		
Unrealised fair value (losses)/gains - net	(3,919)	199
Realised fair value (losses)/gains - net	(14,698)	13,955
Derivative financial instruments - transactions not qualifying as hedges: qualifying as hedges:		
Unrealised fair value gains/(losses) - net	236	(1,312)
Realised gains on available-for-sale investments (transfer from equity)	1,395,268	172,016
Exchange gains - net	968	89,869
Others	112,327	289,100
	1,656,244	914,596
Total other income and other gains, net	2,339,627	1,638,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

8. EXPENSE BY NATURE

	2017 RMB'000	2016 RMB'000 (Restated)
Raw materials and consumables used	35,048,125	38,917,447
Cost of purchased product components and services	22,848,965	26,926,283
Employee benefit expenses (Note 9)	8,403,780	7,964,448
Asset impairment charge	2,893,107	2,375,791
Depreciation and amortisation (Note 14, Note 15, Note 16 and Note 18)	2,249,090	1,891,434
Commissions and brokerage fees	555,012	716,259
Taxes levies and surcharges	547,728	679,655
Office expenses	596,794	573,970
Utility expenses	553,486	584,442
Operating lease expenses	478,576	414,098
Transportation cost and packaging fees	445,074	334,356
Technique commission expenses	282,172	135,858
Interest paid for customer deposits	17,977	52,854
Remuneration of auditors and other consulting fees	45,683	30,542
Other costs related to investment property	240,189	235,626
Cost of property sales	-	620,455
Other expenses	2,196,648	2,238,854
Total cost of sales, distribution costs and administrative expenses	77,402,406	84,692,372

9. EMPLOYEE BENEFIT EXPENSE

	2017 RMB'000	2016 RMB'000 (Restated)
Staff costs (including directors' and supervisors' remuneration):		
Wages and salaries	6,666,799	6,207,206
Defined contribution pension scheme (i)	845,351	717,480
Supplementary pension	28,465	142,319
Early retirement benefits and staff severance costs (ii)	26,392	47,042
Medical benefits costs (iii)	404,562	411,410
Housing fund	432,187	431,233
Cash housing subsidy costs	24	7,758
	8,403,780	7,964,448

(i) Defined contribution pension schemes

All of the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government regulated pension scheme mainly at 21.0% (2016:21.0%) of the employees' basic salaries. This defined contribution pension scheme continued to be available to the Group's employees for the year. The related pension costs are expensed as incurred.

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

(ii) Early retirement benefits and staff severance

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

9. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

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

Based on the directors' estimation, the Group's obligations to the early retirement benefits and staff severance until the qualified employees are eligible for the government-regulated pension scheme amounted to approximately RMB155,157,221 as at 31 December 2017 (2016: RMB153,931,000).The costs of the early retirement benefits were recognised in the period when employees were requested for early retirement. The provision for early retirement benefits was not assessed by any independent actuary. Where the effect of discounting is material, the amount recognised for the early retirement benefits is the present value of reporting period date of the future cash flows expected to be required to settle the obligation. The staff severance costs are recognised when the Group has a formal plan for the termination or an offer to voluntary redundancy and is without realistic possibility of withdrawal.

(iii) Medical benefits

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

(iv) Five highest paid employees

No director and supervisor (2016: Nil) was included in the five highest paid employees during the year. Details of the remuneration for the year of the five (2016: five) highest paid employees who are neither a director nor a supervisor of the Company, are as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Salaries, bonuses and allowances received from the Group	**7,094**	6,090
Pension scheme from the ultimate holding company	**-**	-
Other social benefit schemes contributed by the Group	**-**	-
	7,094	6,090

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

	Number of employees	
	2017	2016 (Restated)
HK$1,000,001 - HK$1,500,000	**3**	-
HK$1,500,001 - HK$2,000,000	**2**	5
HK$2,000,001 - HK$2,500,000	**-**	-
HK$2,500,001 - HK$5,000,000	**-**	-
	5	5

10. FINANCE COSTS - NET

	2017 RMB'000	2016 RMB'000
		(Restated)
Interest income:	198,847	272,409
Interest expense:		
- Bank and other borrowings	(239,372)	(229,619)
- Bonds	(417,733)	(397,118)
	(458,258)	(354,328)

11. INCOME TAX EXPENSE

With the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") effective on 1 January 2008, the Company and all of its subsidiaries that operate in Mainland China were subject to the statutory corporate income tax rate of 25% for the year ended 31 December 2017 (2016: 25%) under the income tax rules and regulations of the PRC, except that:

Certain subsidiaries were subject to a corporate income tax rate of 15% as they have been assessed as "High-New Technology Enterprises" under the Corporate Income Tax Law as at 31 December 2017. Those subsidiaries provided income tax and recognised the deferred tax assets and liabilities at tax rate of 15%.

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

	2017 RMB'000	2016 RMB'000
		(Restated)
Current tax		
Charge for the year	1,405,498	1,207,897
Overprovision in prior years	(30,120)	(75,478)
Deferred tax (Note 24)	(852,956)	150,714
Total tax charge for the year	522,422	1,283,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11. INCOME TAX EXPENSE (CONTINUED)

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

	2017 RMB'000	%	2016 RMB'000	%
			(Restated)	
Profit before tax	5,365,249		5,925,353	
Tax at the statutory tax rate	1,341,312	25.0	1,481,338	25.0
Lower tax rates for specific districts or concessions	(91,993)	(1.7)	(302,781)	(5.1)
Overprovision in prior years	(30,120)	(0.6)	(75,478)	(1.3)
Profits and losses attributable to joint ventures and associates	(316,493)	(5.9)	(206,370)	(3.5)
Income not subject to tax	(336,394)	(6.3)	(148,001)	(2.5)
Expenses not deductible for tax	54,472	1.0	89,903	1.5
Tax incentives on eligible expenditures	(59,253)	(1.1)	(44,480)	(0.8)
Utilization of previously unrecognised tax losses and deductible temporary differences	(416,812)	(7.8)	(191,249)	(3.2)
Tax losses and deductible temporary differences for which no deferred tax assets was recognised	369,951	6.9	556,017	9.4
Reversal of deferred tax assets recognized in prior year	4,517	0.1	126,543	2.1
Others	3,235	0.1	(2,309)	0.0
	522,422	9.7	1,283,133	21.6

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares of 14,034,092,485 (2016: 13,739,895,814) in issue during the year.

The calculation of basic earnings per share is based on:

	2017	2016 (Restated)
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation (RMB'000)	2,626,668	2,354,526
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	14,034,092,485	13,739,895,814

The diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account of the share base payment from Shanghai Prime Machinery Co., Ltd. Since the impact of share base payment from Shanghai Prime Machinery Co., Ltd is immaterial, the diluted earnings per share for the year ended at 31 December 2017 and 2016 presented in the financial statements are equivalent to the basic earnings per share.

13. DIVIDENDS

	2017 RMB'000	2016 RMB'000 (Restated)
Proposed final dividends for the year ended 31 December 2017 of RMB9.195 cents per ordinary share (2016: Nil)	1,353,980	-
	1,353,980	-

On 29 March 2018, the board of directors of the Company resolved to recommend to the shareholders of the Company a final dividend of RMB9.195 cents per share (tax inclusive), totalling to RMB1,353,980,000 for the year ended 31 December 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2017 (Restated)	9,497,719	15,742,927	516,483	1,255,921	1,601,258	28,614,308
Additions	987,550	235,194	15,016	134,430	1,974,988	3,347,178
Additions due to acquisition of subsidiaries	66,001	20,017	606	9,201	-	95,825
Disposals	(526,168)	(435,877)	(29,718)	(63,480)	(168,005)	(1,223,248)
Deduction due to disposal of subsidiaries	(81)	(2,997)	(158)	(138)	-	(3,374)
Transfers from construction in progress	169,395	497,086	9,633	82,432	(758,546)	-
Transferred to other intangible assets (Note 18)	-	-	-	-	(98,565)	(98,565)
Translation reserve	24,056	89,538	1,408	23,737	6,048	144,787
At 31 December 2017	10,218,472	16,145,888	513,270	1,442,103	2,557,178	30,876,911
Accumulated depreciation and impairment:						
At 1 January 2017 (Restated)	3,189,001	8,688,545	367,746	866,518	1,489	13,113,299
Depreciation for the year (Note 8)	507,946	1,030,816	39,592	160,707	-	1,739,061
Impairment for the year	575	370	-	-	1,297	2,242
Deduction of impairment due to the disposals	-	(15,304)	-	(13)	(1,744)	(17,061)
Deduction of depreciation due to the disposals	(144,957)	(299,618)	(26,456)	(52,098)	-	(523,129)
Deduction in depreciation due to disposal of subsidiaries	(82)	(1,551)	(150)	(51)	-	(1,834)
Translation reserve	11,217	63,279	898	20,027	-	95,421
At 31 December 2017	3,563,700	9,466,537	381,630	995,090	1,042	14,407,999
Net carrying amount:						
At 31 December 2017	6,654,772	6,679,351	131,640	447,013	2,556,136	16,468,912

14. PROPERTY, PLANT AND EQUIPMENT(CONTINUED)

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2016 (Restated)	8,763,971	15,507,078	546,687	1,197,020	1,144,297	27,159,053
Additions	667,549	160,829	14,201	66,126	1,608,236	2,516,941
Additions due to acquisition of subsidiaries	51,594	40,984	1,438	12,221	4,520	110,757
Disposals	(85,472)	(759,035)	(50,434)	(72,638)	(30,703)	(998,282)
Deduction due to disposal of subsidiaries	(132,740)	(34,010)	(9,618)	(30,310)	(3,706)	(210,384)
Transfers from construction in progress	223,107	804,164	13,450	77,633	(1,118,354)	-
Transferred to other intangible assets (Note 18)	-	-	-	-	(4,143)	(4,143)
Translation reserve	9,710	22,917	759	5,869	1,111	40,366
At 31 December 2016 (Restated)	9,497,719	15,742,927	516,483	1,255,921	1,601,258	28,614,308
Accumulated depreciation and impairment:						
At 1 January 2016 (Restated)	2,917,468	8,193,439	382,049	795,954	1,109	12,290,019
Depreciation for the year (Note 8)	328,551	1,035,674	42,691	147,657	-	1,554,573
Impairment for the year	2,778	100,151	37	250	380	103,596
Deduction of impairment due to the disposals	(141)	(103,472)	(13)	(71)	-	(103,697)
Deduction of depreciation due to the disposals	(42,308)	(530,700)	(49,065)	(68,374)	-	(690,447)
Deduction in depreciation due to disposal of subsidiaries	(20,467)	(20,558)	(8,340)	(13,220)	-	(62,585)
Translation reserve	3,120	14,011	387	4,322	-	21,840
At 31 December 2016 (Restated)	3,189,001	8,688,545	367,746	866,518	1,489	13,113,299
Net carrying amount:						
At 31 December 2016 (Restated)	6,308,718	7,054,382	148,737	389,403	1,599,769	15,501,009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2017, the net carrying amount of buildings and machinery mortgaged by the Group for bank loans was RMB404,395,000 (31 December 2016: RMB476,265,000) (Note 39).

As at 31 December 2017, the net carrying amount of houses without property ownership certificates of the Group was RMB6,186,000 (31 December 2016: RMB5,926,000).

Rental expense related to equipment and property recognised in the statement of profit or loss was RMB478,576,000 (2016: RMB414,098,000) (Note 8).

In the current year, the capitalized interest was RMB2,310,000 (2016: Nil).

15. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Cost:		**(Restated)**
At 1 January	1,565,318	1,384,290
Addition	75,290	181,028
Disposals	(144,306)	-
At 31 December	1,496,302	1,565,318
Accumulated depreciation:		
At 1 January	620,828	560,195
Depreciation for the year (Note 8)	100,514	60,633
Disposals	(57,548)	-
At 31 December	663,794	620,828
Net carrying amount:		
At 31 December	832,508	944,490

As at 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance (2016: Nil). The Group's investment properties are situated in mainland China and are held under the following lease terms:

	2017 RMB'000	2016 RMB'000 (Restated)
Medium term leases (less than 50 years but not less than 10 years)	367,667	409,053
Short term leases (less than 10 years)	464,841	535,437
	832,508	944,490

16. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		**(Restated)**
At 1 January	4,904,889	2,351,560
Additions	1,718,288	2,611,006
Additions from acquisition of a subsidiary	-	6,725
Disposals	(55,420)	(1,339)
Deduction due to disposal of subsidiaries	-	(63,063)
At 31 December	6,567,757	4,904,889
Accumulated amotisation		
At 1 January	543,209	454,557
Amortisation for the year (Note 8)	208,648	91,950
Disposals	(12,681)	(525)
Deduction due to disposal of subsidiaries	-	(2,773)
At 31 December	739,176	543,209
Net carrying amount:		
At 31 December	5,828,581	4,361,680

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

	2017 RMB'000	2016 RMB'000
At cost, held in Mainland China		**(Restated)**
Leases of over 50 years	519,083	517,130
Leases of between 10 to 50 years	6,048,674	4,387,759
	6,567,757	4,904,889

As at 31 December 2017, no land use right of the Group was pledged to secure certain bank loans granted to the Group (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

17. GOODWILL

	2017 RMB'000	2016 RMB'000
Cost:		**(Restated)**
At 1 January	2,695,992	1,615,282
Increase during the year	-	1,040,346
Translation reserve	109,801	40,364
At 31 December	2,805,793	2,695,992
Impairment:		
At 1 January	141,165	47,679
Increase during the year	15,731	93,486
At 31 December	156,896	141,165
Net carrying amount:		
At 31 December	2,648,897	2,554,827

Impairment testing of goodwill

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

Cash-generating unit	Segment	2017 RMB'000	2016 RMB'000
			(Restated)
Fastener R&D and manufacture	Industrial equipment	1,513,335	1,418,816
Automation equipment	Industrial equipment	1,055,628	1,040,346
Printing and packing machinery	Industrial equipment	12,483	12,483
Transmission and distribution equipment	High efficiency and clean energy	46,625	62,356
Wind power equipment and others	New energy and environmental protection	7,093	7,093
Environmental technology	New energy and environmental protection	13,733	13,733
		2,648,897	2,554,827

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

17. GOODWILL (CONTINUED)

The key assumptions of the cash-generating units in 2017 and 2016 are as follows：

	2017	2016
		(Restated)
Growth rate used to extrapolate cash flows beyond five-year period	1%-3%	1%-3%
Gross margin	19%-24%	19%-24%
Discount rate applied	8%-14%	8%-14%

Assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2017 and 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

18. INTANGIBLE ASSETS

	Patents and licences RMB'000	Technology know-how RMB'000	Concession RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2017 (Restated)	1,261,324	565,434	449,319	528,450	2,804,527
Additions	9,234	331	3,470	52,714	65,749
Additions due to acquisition of subsidiaries	-	-	-	1,979	1,979
Transferred from construction in progress (Note 14)	-	-	90,068	8,497	98,565
Disposals	(137,697)	(29,380)	-	(26,998)	(194,075)
Deduction due to disposal of subsidiaries	-	-	(50,396)	-	(50,396)
At 31 December 2017	1,132,861	536,385	492,461	564,642	2,726,349
Accumulated amortisation and impairment:					
At 1 January 2017 (Restated)	598,417	463,767	139,468	182,012	1,383,664
Amortisation for the year (Note 8)	29,722	25,761	27,611	43,962	127,056
Disposals	(135,198)	(22,235)	-	(1,721)	(159,154)
Deduction due to disposal of subsidiaries	-	-	(18,225)	-	(18,225)
At 31 December 2017	492,941	467,293	148,854	224,253	1,333,341
Net carrying amount:					
At 31 December 2017	639,920	69,092	343,607	340,389	1,393,008

18. INTANGIBLE ASSETS(CONTINUED)

	Patents and licences RMB'000	Technology know-how RMB'000	Concession RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2016 (Restated)	1,002,460	542,386	446,962	337,665	2,329,473
Additions	723	-	426	235,684	236,833
Additions due to acquisition of subsidiaries	258,141	26,014	-	152,758	436,913
Transferred from construction in progress (Note 14)	-	-	1,931	2,212	4,143
Disposals	-	(2,966)	-	(192,120)	(195,086)
Deduction due to disposal of subsidiaries	-	-	-	(7,749)	(7,749)
At 31 December 2016 (Restated)	1,261,324	565,434	449,319	528,450	2,804,527
Accumulated amortisation and impairment:					
At 1 January 2016 (Restated)	554,505	435,262	120,124	149,373	1,259,264
Amortisation for the year (Note 8)	43,912	29,263	19,344	37,865	130,384
Disposals	-	(758)	-	(1,967)	(2,725)
Deduction due to disposal of subsidiaries	-	-	-	(3,259)	(3,259)
At 31 December 2016 (Restated)	598,417	463,767	139,468	182,012	1,383,664
Net carrying amount:					
At 31 December 2016 (Restated)	662,907	101,667	309,851	346,438	1,420,863

Amortisation of RMB73,052,000 (2016: RMB85,195,000) and RMB54,004,000 (2016: RMB45,189,000) is included in the 'Administrative expenses' and 'Distribution costs', respectively, in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

19. SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2017 are as follows:

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. 上海電氣集團上海電機廠有限公司	PRC	RMB 241,818	100%	-	Production and sale of turbine generators and spare parts
Shanghai Boiler Works, Ltd. 上海鍋爐廠有限公司	PRC	RMB 207,483	100%	-	Sale of power station boilers, industry boilers and power station equipment
Shanghai Electric Power Generation Equipment Co., Ltd. # * 上海電氣電站設備有限公司# *	PRC	USD 264,792	-	60%	Design, manufacture and sale of power generation equipment and auxiliary products
Shanghai Electric Wind Power Group Co., Ltd. $ 上海電氣風電集團有限公司$	PRC	RMB 3,485,347	100%	-	Production and sale of wind power equipment, spare parts and provision of after-sales service
SEC Power Generation Environment Protection Engineering Co., Ltd. 上海電氣電站環保工程有限公司	PRC	RMB 50,000	95%	-	Design, manufacture and sale of desulphurisation equipment
Shanghai Electric Nuclear Power Equipment Co., Ltd. 上海電氣核電設備有限公司	PRC	RMB 2,092,000	100%	-	Production and sale of nuclear power equipment spare parts and provision of after-sales service
Shanghai No.1 Machine Tool Works Co., Ltd. 上海第一機床廠有限公司	PRC	RMB 620,000	100%	-	Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipment
Shanghai Electric Group Finance Co., Ltd. 上海電氣集團財務有限責任公司	PRC	RMB 2,200,000	73.38%	15.63%	Providing financial service

19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2017 are as follows (continued):

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2017 are as follows (continued):

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Electric Transmission and Distribution Group Co., Ltd.& 上海電氣輸配電集團有限公司&	PRC	RMB 2,000,000	50%	-	Production and sale of power transmission, distribution and controlling equipment
Shanghai Electric Leasing Co., Ltd. 上海電氣租賃有限公司	PRC	RMB 300,000	100%	-	Provision of finance leases
Shanghai Electric Milling Equipment Co., Ltd. 上海電氣上重碾磨特裝設備有限公司	PRC	RMB 150,000	100%	-	Design, production and sale of power station equipments
Shanghai Electric Hong Kong Co., Ltd. 上海電氣香港有限公司	HK	RMB 547,674	100%	-	Sales of machinery and electronic products and related services business, import and export trade business, trade business, investment business
TEC4AERO GmbH*	GER	EURO 1,798	-	100%	Manufacturing of equipment for aircraft assembly lines
Shanghai Electric Wind Power Yunnan Company., Ltd 上海電氣風電雲南有限公司	PRC	RMB 20,000	100%	-	Production,installation and sale of wind generating set
Shanghai Institute of Mechanical & Electrical Engineering Co., Ltd. 上海市機電設計研究院有限公司	PRC	RMB 91,996	100%	-	Engineering design,technology services
Shanghai Najie Electrical Complete Sets Co., Ltd* 上海納傑電氣成套有限公司*	PRC	RMB 50,000	-	85%	Electrical equipment full set
Shanghai Renmin Electrical Apparatus Works* 上海電器股份有限公司人民電器廠*	PRC	RMB 90,000	-	100%	Production and sale of main parts of transformers

19. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2017 are as follows(continued):

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Electric Power Transmission and Distribution Engineering Co., Ltd.* 上海電氣輸配電工程成套有限公司*	PRC	RMB 50,000	-	100%	Design and consulting services for power station, transfomers and other projects
Shanghai Boiler Works Ltd. 上海鼓風機廠有限公司	PRC	RMB 239,760	100%	-	Production, sale and export blowers and import related materials
Shanghai Denso Fuel Injection Co., Ltd.# 上海電裝燃油噴射有限公司#	PRC	USD 29,400	61%	-	Design and production of diesel engine fuel pump and components
Shanghai Feihang Electric Wire and Cable Co., Ltd.* 上海飛航電線電纜有限公司*	PRC	RMB 150,000	-	60%	Production and sale of wire and cable electrical equipment
Shanghai Huapu Cable Co., Ltd.* 上海華普電纜有限公司*	PRC	RMB 200,000	-	80%	Production and sale of wire and cable
Shanghai Prime Machinery Co., Ltd.! 上海集優機械股份有限公司!	PRC	RMB 1,438,286	47.18%	-	Production and sale of industrial blades, precision bearings and high quality fasteners
Thales SEC Transportation System Limited Company 上海電氣泰雷茲交通自動化系統有限公司	PRC	RMB 200,000	50.1%	-	Production of traffic signal system and equipment
Shanghai Electric Group Asset Management Co., Ltd. 上海電氣集團置業有限公司	PRC	RMB 658,000	100%	-	Real estate development and property management
Shanghai Electric Enterprise Service Co., Ltd.# 上海電氣集團企業服務有限公司#	PRC	RMB 70,000	80%	-	Financial consultation and agency bookkeeping
Shanghai Electric Wind Power Guangdong Co., Ltd 上海電氣風電廣東有限公司	PRC	RMB 200,000	-	100%	Production,installation and sale of wind generating set

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

19. SUBSIDIARIES (CONTINUED)

Sino-foreign equity joint ventures

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

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

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

$ Shanghai Electric Wind Power Group Co., Ltd. merges Shanghai Electric Wind Energy Equipment Co., Ltd. and Shanghai Electric Wind Energy Co., Ltd.

! PMC is 47.18% owned by the Company and is accounted for as a subsidiary by virtue of the Company's control over it. Details of the disclosure are included in Note 4.

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

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

	2017 RMB'000	2016 RMB'000
Percentage of equity interest held by non-controlling interests:		
SMEI	**52.17%**	52.17%
SETD	**50%**	50%
PMC	**52.82%**	52.82%

19. SUBSIDIARIES (CONTINUED)

	2017 RMB'000	2016 RMB'000
Profit for the year allocated to non-controlling interests:		
SMEI	**1,656,172**	1,723,267
SETD	**30,310**	120,420
PMC	**133,208**	107,184
Dividends paid to non-controlling interests of:		
SMEI	**805,765**	1,018,489
SETD	**92,930**	125,158
PMC	**26,590**	24,311
Accumulated balances of non-controlling interests at the reporting dates:		
SMEI	**7,630,447**	7,185,937
SETD	**1,970,271**	2,008,929
PMC	**1,903,346**	1,789,188

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

	2017 RMB'000	2016 RMB'000
SMEI		
Revenue	**19,236,905**	18,938,552
Total expenses	**(16,875,737)**	(16,524,946)
Profit for the year	**2,361,168**	2,413,606
Total comprehensive income	**2,313,069**	2,412,624
Current assets	**28,504,161**	26,797,696
Non-current assets	**5,016,214**	4,943,343
Current liabilities	**20,664,951**	19,748,506
Non-current liabilities	**424,826**	402,071
Net cash flows from operating activities	**1,930,118**	1,999,573
Net cash flows from investing activities	**952,027**	598,965
Net cash flows used in financing activities	**(1,242,147)**	(1,166,560)
Effect of changes in exchange rate on cash	**(28,508)**	13,735
Net increase in cash and cash equivalents	**1,611,490**	1,445,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

19. SUBSIDIARIES (CONTINUED)

	2017 RMB'000	2016 RMB'000
SETD		
Revenue	8,386,975	7,912,299
Total expenses	(8,344,060)	(7,747,114)
Profit for the year	42,915	165,185
Total comprehensive income for the year	51,190	164,818
Current assets	7,340,899	6,799,017
Non-current assets	1,370,311	1,352,842
Current liabilities	5,326,096	4,704,582
Non-current liabilities	76,635	79,493
Net cash flows (used in)/from operating activities	(749,032)	921,928
Net cash flows used in investing activities	(102,958)	(123,151)
Net cash flows from/(used in) financing activities	218,738	(223,454)
Effect of changes in exchange rate on cash	8,870	2,542
Net (decrease)/increase in cash and cash equivalents	(624,382)	577,865

	2017 RMB'000	2016 RMB'000
PMC		
Revenue	8,478,895	7,784,967
Total expenses	(8,226,121)	(7,581,818)
Profit for the year	252,774	203,149
Total comprehensive income for the year	264,602	189,703
Current assets	4,966,072	4,874,006
Non-current assets	4,297,101	4,246,198
Current liabilities	2,880,146	2,962,992
Non-current liabilities	2,820,002	2,810,772
Net cash flows from operating activities	572,708	587,302
Net cash flows used in investing activities	(209,569)	(160,922)
Net cash flows used in financing activities	(628,796)	(254,673)
Effect of changes in exchange rate on cash	(14,180)	19,624
Net (decrease)/increase in cash and cash equivalents	(279,837)	191,331

20. INVESTMENTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
		(Restated)
Investments, cost:	4,839,733	4,232,356
Impairment	(444,098)	(444,098)
At 31 December	4,395,635	3,788,258

Set out below is the joint venture of the Group as at 31 December 2017, which, in the opinion of the directors, are material to the Group. The joint venture listed below has share capital consisting of solely of ordinary shares, which is held directly by the Group.

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ansaldo Energia S.p.A ("AEN")	Italy	EUR100,000	40%	-	Provide service in respect of power plants equipment and related parts and manufacturing business of gas turbines
Shanghai FANUC robotics Co. Ltd.#	PRC	USD12,000	-	50%	Manufacture of industrial robot

\# Sino-foreign equity joint ventures

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

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

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

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

In addition, the functional currency of AEN is Euro while the presentation currency of the Group is RMB. The investment in AEN is exposed to the foreign exchange risk. In order to mitigate the foreign exchange risk, the Group issued Euro denominated bond amounting to EUR371,700,000 as hedging instrument. Formal document had been made to demonstrate the above hedging relationship as well as risk management objectives and hedging strategies. In 2017, the exchange difference reserve relating to the investment in AEN is RMB198,200,000. The effective portion of net investment hedge is RMB198,200,000. The net impact to other comprehensive income of above mentioned foreign exchange difference and the effective portion of net investment hedge is nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Summarised financial information

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

Summarised consolidated balance sheet

	31 December 2017 RMB'000
Current	
Assets	12,298,524
Liabilities	(12,964,505)
Non-current	
Assets	14,673,807
Liabilities	(9,258,818)
Net assets	4,749,008

Summarised consolidated statement of comprehensive income

	2017 RMB'000
Revenue	10,332,215
Profit before income tax	182,670
Income tax expense	(50,965)
Profit for the year	131,705
Other comprehensive income	326,038
Total comprehensive income	457,743
Dividends received from joint venture	-

The information above reflects the amounts presented in the financial statements of the joint ventures for the year ended 31 December 2017, adjusted for differences in accounting policies between the Group and the joint ventures, and not SEG's share of those amounts.

20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of summarised financial information

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

Summarised financial information

	2017 RMB'000
Opening net assets	4,291,265
Profit for the period	131,705
Other comprehensive income	326,038
Closing net assets	4,749,008
Interest in Joint Venture @40%	1,899,603
Goodwill	1,067,355
Carrying value	2,966,958

Set out below are the summarised financial information for Shanghai FANUC robotics Co. Ltd. which are accounted for using the equity method.

Summarised financial information

	31 December 2017 RMB'000
Current	
Assets	2,983,438
Liabilities	(1,020,722)
Non-current	
Assets	481,180
Liabilities	-
Net assets	2,443,896

Summarised financial information

	2017 RMB'000
Revenue	3,387,536
Profit before income tax	1,117,928
Income tax expense	(147,670)
Profit for the year	970,258
Other comprehensive income	-
Total comprehensive income	970,258
Dividends received from joint venture	131,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

20. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Reconciliation of summarised financial information (continued)

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

Summarised financial information

	2017 RMB'000
Opening net assets	1,736,256
Profit for the period	970,258
Dividends paid to shareholders	(262,618)
Closing net assets	2,443,896
Interest in Joint Venture @50%	1,221,948
Goodwill	-
Carrying value	1,221,948

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

	2017 RMB'000	2016 RMB'000 (Restated)
Share of the joint ventures' profit for the year	32,307	(3,087)
Share of the joint ventures' other comprehensive income	-	-
Share of the joint ventures' total comprehensive income	32,307	(3,087)
Aggregate carrying amount of the Group's investments in the joint ventures (excluding impairment)	206,729	94,214

21. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000 (Restated)
Investments, at cost:		
Share of net assets	6,316,334	5,475,423
Impairment	(7,008)	-
	6,309,326	5,475,423
Share of associates' results in the consolidated statement of profit or loss	772,374	559,542

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Set out below are the associates of the Group as at 31 December 2017, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yileng Carrier Air Conditioning Equipment Co., Ltd. # * 上海一冷開利空調設備有限公司#*	PRC	RMB 372,343	-	30%	Production and sale of centralised air-conditioning systems
Shanghai Marathon-Gexin Electric Co., Ltd. # * 上海馬拉松革新電氣有限公司#*	PRC	USD 8,000	-	21.31%	Production, repair and sale of electric machines and machine sets
Mitsubishi Electric Shanghai Mechanical &Electrical Elevator Co., Ltd. # * 三菱電機上海機電電梯有限公司#*	PRC	USD 53,000	-	18.94%	Research and development, manufacture and sale of major components of elevators, escalators and automatic sidewalks
Shanghai Arnaiz Special Yantian Coating Machinery Co., Ltd.# * 上海阿耐斯特岩田塗裝機械有限公司#*	PRC	JPY 329,412	-	18.94%	Design, manufacture and sale of, compression mechanical, spraying mechanical, spraying equipment, hydraulic equipment
Chengdu Ri Yong-JEA Gate Electric Co., Ltd. *& 成都日用友捷汽車電氣有限公司*&	PRC	RMB 20,000	-	9.47%	Design, manufacture and sale of auto radiator fans, blowers and micromotors
Shanghai Nabtesco Hydraulic Co., Ltd. # * 上海納博特斯克液壓有限公司#*	PRC	USD 14,500	-	14.20%	Production and sale of hydraulic travelling motors and swing motors
Shanghai Ri Yong-JEA Gate Electric Co., Ltd. # * 上海日用-友捷汽車電氣有限公司#*	PRC	USD 17,000	-	18.94%	Design,manufacture and sale of auto radiator fans, blowers and micromotors
Shanghai Danfoss Hydrostatic Transmission Co., Ltd. # * 上海丹佛斯液壓傳動有限公司#*	PRC	USD 18,000	-	18.94%	Production and sale of hydraulic piston pumps and motors
Shanghai Jintai Engineering Machinery Co., Ltd. * ("Shanghai Jintai") 上海金泰工程機械有限公司*	PRC	RMB 832,239	-	23.20%	Manufacturing and operation of engineering machinery
Shanghai Mitsubishi Electric Shanglin Air Conditioner Electric Co., Ltd. #* 上海三菱電機•上菱空調機電#*	PRC	USD 58,000	-	47.6%	Production of air-conditioners and oil-filled heaters and providing after-sale service
Chongqing Shenhua Thin Film Solar Power Co., Ltd. 重慶神華薄膜太陽能科技有限公司	PRC	RMB 1,250,000	-	20%	Production, sale and installation of solar power equipments
Manz AG^	Germany	Euro 7,744	-	19.67%	Production and sale of solar cells and lithium batteries

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

\# Sino-foreign equity associates

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

^ Manz AG is a public company which is listed in Germany.At 31 December 2017, the market price of Manz AG multiplied by shares the Group held was RMB 374,851,000 and the carrying amount was RMB 390,973,000.

& The Group is entitled to appoint a board member of Chengdu Ri Yong-JEA Gate Electric Co., Ltd. The Group exercises significant influence on Chengdu Ri Yong.

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

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

Summarised financial information for associates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarised balance sheet and statement of comprehensive income

	Mitsubishi Electric 2017 RMB'000	Schneider Electric 2017 RMB'000	Shanghai Rail 2017 RMB'000	Yileng Carrier 2017 RMB'000
Current				
Assets	2,375,002	1,111,989	2,594,243	1,484,423
Liabilities	(1,361,533)	(581,268)	(1,787,942)	(652,398)
Non-current				
Assets	365,955	108,109	539,287	654,847
Liabilities	-	-	(37,104)	(2)
Net assets	1,379,424	638,830	1,308,484	1,486,870
Revenue	4,967,294	2,216,520	1,493,859	2,289,868
Profit brfore tax from continuing operations	239,856	687,204	54,933	351,014
Profit for the year from continuing operations	181,993	515,183	45,097	245,014
Other comprehensive income	-	-	-	-
Total comprehensive income	181,993	515,183	45,097	245,014
Dividends received from associates	54,632	51,696	-	-

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

21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Reconciliation of summarised financial information

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

	Mitsubishi Electric 2017 RMB'000	Schneider Electric 2017 RMB'000	Shanghai Rail 2017 RMB'000	Yileng Carrier 2017 RMB'000
Opening net asset 1 January attributable to the parent company	1,312,265	382,275	1,096,967	1,234,617
Profit for the period attributable to the parent company	181,932	515,035	33,998	252,253
Dividend distribution to shareholders for the year	(114,773)	(258,480)	-	-
Other comprehensive income attributable to the parent company	-	-	-	-
Closing net assets attributable to the parent company	1,379,424	638,830	1,130,965	1,486,870
Share of associates	47.6%	20%	49%	30%
Interest in associates	656,606	127,766	554,173	446,061
Goodwill	-	-	-	-
Carrying value	656,606	127,766	554,173	446,061

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

22. LOANS AND LEASE RECEIVABLES

	2017			2016(Restated)		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
Loans to the ultimate holding company	3,080,000	(152,400)	2,927,600	2,050,000	(51,250)	1,998,750
Loans to SEC group companies*	4,028,990	(310,793)	3,718,197	3,671,440	(91,786)	3,579,654
Loans to associates	170,000	(5,315)	164,685	237,000	(5,925)	231,075
Loans to other related parties	20,000	(600)	19,400	22,050	(551)	21,499
Loans to third parties	117,000	(44,175)	72,825	117,000	(29,250)	87,750
Loans to subcontractors	68,000	(2,040)	65,960	768,100	(19,203)	748,897
	7,483,990	(515,323)	6,968,667	6,865,590	(197,965)	6,667,625
Lease receivables	13,380,254			13,190,345		
Less: unearned finance income	(1,364,119)			(1,341,805)		
Net lease receivables	12,016,135	(629,268)	11,386,867	11,848,540	(437,643)	11,410,897
	19,500,125	(1,144,591)	18,355,534	18,714,130	(635,608)	18,078,522
Portion classified as current assets	11,913,884	(957,766)	10,956,118	10,579,976	(476,290)	10,103,686
Non-current portion	7,586,241	(186,825)	7,399,416	8,134,154	(159,318)	7,974,836

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

Details of loans to subcontractors are listed as follows:

	2017		2016(Restated)	
	Effective interest rate(%)	RMB'000	Effective interest rate(%)	RMB'000
SDIC Xinji Lixin Power Co. Ltd.	-	-	4.37%	272,700
SDIC Yunnan Wind Power Co., Ltd.	4.00%	24,000	4.00%	66,400
Tianjin SDIC Jinneng Electric Power Co., Ltd.	-	-	3.915%	400,000
Beijing Shangzhuang Gas Thermoelectric Co., Ltd.	4.28%	44,000	4.28%	29,000
		68,000		768,100

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

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

22. LOANS AND LEASE RECEIVABLE (CONTINUED)

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

	2017		2016(Restated)	
	Impairment of loans receivable RMB'000	Impairment of lease receivables RMB'000	Impairment of loans receivable RMB'000	Impairment of lease receivables RMB'000
At 1 January	197,965	437,643	170,791	309,808
Impairment losses recognised (Note 8)	317,358	191,625	27,174	127,835
At 31 December	515,323	629,268	197,965	437,643

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

	2017 RMB'000	2016 RMB'000 (Restated)
Credit loans receivable	3,318,000	2,988,100
Guaranteed loans receivable	4,048,990	3,693,490
Secured loans	117,000	184,000
	7,483,990	6,865,590

As at 31 December 2017, RMB117,000,000 (2016: RMB117,000,000) of the Group's loans receivable was past due. The annual interest rates of loans provided to related parties range from 1.95% to 5.58% (2016: 3.92% to 5.58%).

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

	2017		2016(Restated)	
	Lease receivables RMB'000	Net lease receivables RMB'000	Lease receivables RMB'000	Net lease receivables RMB'000
Within 1 year	4,998,941	4,300,142	6,276,150	5,299,681
Over 1 year but within 5 years	8,381,313	7,086,725	6,870,222	6,072,562
Over 5 years	-	-	43,973	38,654
	13,380,254	11,386,867	13,190,345	11,410,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

22. LOANS AND LEASE RECEIVABLE (CONTINUED)

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

	2017		2016(Restated)	
	Lease receivables RMB'000	Net lease receivables RMB'000	Lease receivables RMB'000	Net lease receivables RMB'000
Within 1 year	5,758,571	4,786,955	5,399,467	4,442,631
Over 1 year but within 5 years	7,344,310	6,365,448	7,581,164	6,779,315
Over 5 years	277,373	234,464	209,714	188,951
	13,380,254	11,386,867	13,190,345	11,410,897

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

23. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000 (Restated)
Equity investments:		
- Available-for-sale (unlisted), at cost	753,355	621,381
- Impairment	(444)	(9,691)
	752,911	611,690
- Available-for-sale (listed), at fair value	392,537	759,327
	1,145,448	1,371,017
Investment products:		
- Available-for-sale (unlisted), at fair value	51,930	-
Investment funds:		
- Available-for-sale (listed), at fair value	22,186	-
Debt investments:		
- Available-for-sale (unlisted), at fair value	174,247	350,299
- Available-for-sale (listed), at fair value	-	20,492
	174,247	370,791
	1,393,811	1,741,808

The majority of the investment products is tradable in inter-bank market.

23. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

As at 31 December 2017, no listed available-for-sale equity investments were restricted for trading over certain periods (31 December 2016: Nil).

During the year, the decrease in fair value of the Group's non-current available-for-sale investments recognised in other comprehensive income amounted to RMB168,467,000 (2016: RMB179,118,000). In addition, upon the disposal of certain non-current available-for-sale investments during the year, a cumulative gain of RMB108,771,000 (2016: RMB5,697,000) was transferred from equity and recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

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

As at 31 December 2017, certain unlisted available-for-sale equity investments with a carrying amount of RMB752,911,000 (2016: RMB611,690,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

24. DEFERRED TAX

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

	2017 RMB'000	2016 RMB'000 (Restated)
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**2,876,295**	2,298,340
– Deferred tax asset to be recovered within 12 months	**1,415,116**	1,064,033
	4,291,411	3,362,373
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**(192,679)**	(219,946)
– Deferred tax liability to be recovered within 12 months	**(453,588)**	(429,388)
	(646,267)	(649,334)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

24. Deferred tax (continued)

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

Deferred tax assets

	2017						
	Losses available for offsetting against future taxable profits RMB'000	Impairment of assets and provisions RMB'000	Unrealised loss on investments RMB'000	Accrued expenses RMB'000	Unrealised profit RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	212,797	2,075,405	-	876,443	48,299	149,429	3,362,373
Deferred tax credited /(charged) to the consolidated statement of profit or loss during the year (Note 11)	(26,883)	649,278	-	343,562	(10,427)	(26,492)	929,038
Deferred tax charged to equity during the year	-	-	-	-	-	-	-
Gross deferred tax assets at 31 December 2017	185,914	2,724,683	-	1,220,005	37,872	122,937	4,291,411
Offset against deferred tax liabilities*							(308,737)
Net deferred tax assets at 31 December 2017							3,982,674

Deferred tax liabilities

	2017					
	Revaluation of properties RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Unrealised gain on investments RMB'000	Unrealised profit RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	(194,915)	(156,072)	(130,077)	-	(168,270)	(649,334)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (Note 11)	2,236	(2,613)	(20,044)	(453)	(55,208)	(76,082)
Deferred tax credited to equity during the year	-	-	79,149	-	-	79,149
Gross deferred tax liabilities at 31 December 2017	(192,679)	(158,685)	(70,972)	(453)	(223,478)	(646,267)
Offset against deferred tax assets*						308,737
Net deferred tax liabilitites at 31 December 2017						(337,530)

24. DEFERRED TAX (CONTINUED)

Deferred tax assets

	2016(Restated)						
	Losses available for offsetting against future taxable profits	Impairment of assets and provisions	Unrealised loss on investments	Accrued expenses	Unrealised profit	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016	78,431	2,133,874	6,107	862,737	64,766	172,560	3,318,475
Deferred tax credited /(charged) to the consolidated statement of profit or loss during the year (Note 11)	31,975	(61,704)	431	(54,414)	(16,467)	(26,446)	(126,625)
Deferred tax charged to equity during the year	-	-	(6,538)	-	-	-	(6,538)
Effect of acquisition of subsidiaries	102,391	3,235	-	68,120	-	3,315	177,061
Gross deferred tax assets at 31 December 2016	212,797	2,075,405	-	876,443	48,299	149,429	3,362,373
Offset against deferred tax liabilities*							(311,376)
Net deferred tax assets at 31 December 2016							3,050,997

Deferred tax liabilities

	2016(Restated)					
	Revaluation of properties	Fair value adjustment arising from acquisition of subsidiaries	Unrealised gain on investments	Unrealised profit	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016	(183,373)	(55,440)	(216,593)	-	(101,992)	(557,398)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (Note 11)	(3,507)	(100,632)	(138)	-	80,188	(24,089)
Deferred tax credited to equity during the year	-	-	86,654	-	-	86,654
Acquisition of subsidiaries	(8,035)	-	-	-	(146,466)	(154,501)
Gross deferred tax liabilities at 31 December 2016	(194,915)	(156,072)	(130,077)	-	(168,270)	(649,334)
Offset against deferred tax assets*						311,376
Net deferred tax liabilitites at 31 December 2016						(337,958)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

24. DEFERRED TAX (CONTINUED)

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

	2017 RMB'000	2016 RMB'000 (Restated)
Tax losses	4,038,005	2,823,087
Deductible temporary differences	3,940,514	5,221,424
	7,978,519	8,044,511

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

Unrecognised deferred tax assets due from the annual deductible loss:

	2017 RMB'000	2016 RMB'000 (Restated)
2017	-	75,629
2018	202,912	214,669
2019	271,888	298,299
2020	1,184,626	1,134,490
2021	1,008,669	1,100,000
2022 and after	1,369,910	-
	4,038,005	2,823,087

25. OTHER NON-CURRENT ASSETS

		2017	2016
		RMB'000	RMB'000
			(Restated)
Long-term receivables of warranty	(a)	1,879,074	1,925,656
Prepaid of equity invesment	(b)	1,932,522	-
Long-term prepaid expense		247,150	175,477
Other		276,984	11,365
		4,335,730	2,112,498

(a) Long-term receivables of warranty mainly represented final payments of the sales for wind power equipment products and were expected to be collected during the end of the warranty period. The warranty periods generally expire between two and five years after the trial operations of wind power equipment products have been completed. The purpose of the warranty was to provide industry-wide quality assurance. There was no significant financing component, thus the balance of the receivables was not discounted.

(b) The Company has subscribed for 1,380,000,000 shares (2% of total issued shares) of China Orient Asset Management Co., Ltd., with RMB1.4004 per share during the year of 2017. The consideration amounted to RMB1,932,522,000, was paid on 28 December 2017 while the equity transaction has not been completed as at 31 December 2017. As at 9 March 2018, the equity transaction has been completed.

26. INVENTORIES

	2017	2016
	RMB'000	RMB'000
		(Restated)
Raw materials	5,126,739	4,522,083
Work in progress	15,200,108	10,767,893
Finished goods	10,763,741	8,769,962
	31,090,588	24,059,938
Less: provision for impairment	(2,033,237)	(1,874,608)
	29,057,351	22,185,330

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB 35,048,125,000 (2016: RMB 38,917,447,000), which included inventory net write-down of RMB 903,107,000 (2016: RMB 842,317,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

27. CONSTRUCTION CONTRACTS

	2017 RMB'000	2016 RMB'000 (Restated)
Contract costs incurred plus recognised profits less losses	41,091,779	42,258,613
Less: progress billings	(35,191,082)	(36,984,370)
provision for impairment	(484,248)	(444,197)
Gross amount due from contract customers	5,416,449	4,830,046

As at 31 December 2017, advances received from customers for construction contracts included in the Group's and the Company's balances of other payables and accruals approximately amounted to RMB2,109,921,000 (2016: RMB1,967,821,000).

28. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Trade receivables	34,872,377	32,010,950
Less: provision for impairment	(6,966,530)	(5,511,070)
	27,905,847	26,499,880

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

28. TRADE RECEIVABLES (CONTINUED)

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

	2017	2016
	RMB'000	RMB'000
		(Restated)
Not due	16,861,483	16,661,451
Within 3 months past due	3,738,790	3,876,334
Over 3 months but within 6 months past due	1,913,216	1,898,059
Over 6 months but within 1 year past due	1,521,476	1,657,876
Over 1 year but within 2 years past due	2,011,944	1,571,096
Over 2 years but within 3 years past due	1,502,487	656,196
Over 3 years past due	356,451	178,868
	27,905,847	26,499,880

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

	2017	2016
	RMB'000	RMB'000
		(Restated)
Within 3 months	9,984,902	14,252,878
Over 3 months but within 6 months	3,275,056	2,354,095
Over 6 months but within 1 year	6,199,041	2,973,116
Over 1 year but within 2 years	4,189,666	3,915,430
Over 2 years but within 3 years	2,568,456	1,741,242
Over 3 years	1,688,726	1,263,119
	27,905,847	26,499,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

28. TRADE RECEIVABLES (CONTINUED)

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

	2017 RMB'000	2016 RMB'000 (Restated)
At 1 January	5,511,070	4,878,651
Impairment losses charged	2,091,216	1,891,395
Purchase of subsidiaries	420	3,072
Impairment losses reversed	(627,233)	(1,233,070)
Amount written off as uncollectible	(8,680)	(13,553)
Disposal of subsidiaries	(263)	(15,425)
At 31 December	6,966,530	5,511,070

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

Trade receivables are analysed as follows by category:

	2017				2016(Restated)			
	Balance		Provision		Balance		Provision	
	Amount	Percentage	Amount	Percentage of provison	Amount	Percentage	Amount	Percentage of provison
Individually significant amount and provision has been individually provided	1,070,434	3.07%	980,404	91.59%	1,206,569	3.77%	1,062,241	88.04%
Amount assessed collective by grouping them under similar credit risk characters	33,719,658	96.69%	5,920,829	17.56%	30,682,474	95.85%	4,353,029	14.19%
Individually not significant amount but provision has been individually provided	82,285	0.24%	65,297	79.35%	121,907	0.38%	95,800	78.58%
	34,872,377	100.00%	6,966,530	19.98%	32,010,950	100.00%	5,511,070	17.22%

28. TRADE RECEIVABLES (CONTINUED)

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

	2017 RMB'000	2016 RMB'000 (Restated)
Neither past due nor impaired (a)	11,944,301	12,490,543
Within 3 months past due (b)	2,365,691	1,235,367
Over 3 months but within 6 months (b)	1,242,987	2,539,732
Over 6 months past due (b)	332,938	110,866
	15,885,917	16,376,508

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

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

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

	2017 RMB'000	2016 RMB'000 (Restated)
The ultimate holding company	43,570	46,150
Associates	38,859	34,690
SEC group companies	395,644	499,177
Other related companies	9,502	20,450
	487,575	600,467

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

As at 31 December 2017, the Group's trade receivables with a net carrying amount of approximately RMB19,198,000 (31 December 2016: trade receivables with net carrying amount RMB32,294,000) are pledged to bank for short term loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

28. TRADE RECEIVABLES (CONTINUED)

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

	2017 RMB'000	2016 RMB'000 (Restated)
GBP	-	215
CAD	-	38
MYR	43,573	-
EUR	518,782	366,503
USD	5,814,201	4,736,145

The net value of the Group's trade receivables included a receivable from a country with sovereign financial risk of RMB3,015,066,000(31 December 2016: RMB2,979,891,000).

29. DISCOUNTED BILLS RECEIVABLE

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

	2017 RMB'000	2016 RMB'000 (Restated)
Within 3 months	105,717	106,095
Over 3 months but within 6 months	32,672	72,965
Between 6 months and 1 year	47,720	15,000
	186,109	194,060
Less: Provision for discounted bills receivable	(6,183)	(5,008)
	179,926	189,052

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

	2017 RMB'000	2016 RMB'000 (Restated)
At 1 January	5,008	9,700
Provision	1,175	-
Impairment losses reversed	-	(4,692)
At 31 December	6,183	5,008

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

29. DISCOUNTED BILLS RECEIVABLE (CONTINUED)

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

	2017 RMB'000	2016 RMB'000 (Restated)
Other related companies	977	-
SEC group companies	7,249	31,448
	8,226	31,448

The annual interest rates of discounting services provided to related parties ranged from 3.18% to 7.59% for the year ended 31 December 2017 (2016: 3.18% to 4.62%)

30. BILLS RECEIVABLE

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

	2017 RMB'000	2016 RMB'000 (Restated)
Within 3 months	5,023,480	2,406,060
Over 3 months but within 6 months	3,837,733	3,118,766
Over 6 months but within 1 year	1,244,791	1,716,196
	10,106,004	7,241,022

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

	2017 RMB'000	2016 RMB'000 (Restated)
Associates	28,466	15,115
SEC group companies	20,119	126,977
Joint ventures	27,317	-
Other related companies	3,000	-
	78,902	142,092

As at 31 December 2017 bills receivable amounted RMB222,389,000 (2016: RMB176,209,000) have been pledged to banks as security for issurance of bills payable. Besides, the balances are non-interest-bearing and repayable as and when the bills fall due.

Included in the balance of bills receivable as at 31 December 2017 was an amount of RMB449,730,000 (2016: RMB175,731,000) related to bills receivable discounted by the Group companies with Finance Company. The balance was thus recorded as bills receivable in the Group's consolidated balance sheet as at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Prepayments		
- to third parties	8,857,536	8,379,260
- to the ultimate holding company	-	5
- to joint ventures	159,812	-
- to associates	349,740	51,220
- to SEC group companies	99,835	145,684
- to other related companies	84,313	63,136
Deposits and other receivables		
- due from third parties	1,427,519	1,936,506
- due from the ultimate holding company	72	-
- due from joint ventures	2,168	3,005
- due from associates	22,880	226
- due from SEC group companies	6,247	6,323
- due from other related companies	19	19
Dividend receivables	79,660	61,042
Other current assets	318,952	323,619
VAT deductible	895,469	399,571
	12,304,222	11,369,616
Less: Provision for deposits and other receivables	(134,106)	(162,881)
	12,170,116	11,206,735

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

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

	2017 RMB'000	2016 RMB'000 (Restated)
At 1 January	162,881	85,760
Impairment losses recognised	4,393	79,223
Transfer out due to disposal of subsidiaries	(986)	(71)
Impairment losses reversed	(31,321)	(2,031)
Others	(861)	-
At 31 December	134,106	162,881

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

32. INVESTMENT (CURRENT)

	2017 RMB'000	2016 RMB'000 (Restated)
Equity investments:		
- At fair value through profit or loss (listed)	54,589	33,675
- Available-for-sale (listed), at fair value	373,117	104,997
	427,706	138,672
Debt investments:		
- At fair value through profit or loss (listed)	21,401	40,921
- Available-for-sale (unlisted), at fair value	-	-
	21,401	40,921
Investment funds:		
- At fair value through profit or loss (listed)	5	116,401
- Available-for-sale (listed), at fair value	477,397	1,914,702
	477,402	2,031,103
Investment products:		
- Available-for-sale (unlisted), at fair value	8,460,482	1,269,681
Convertible debenture arrangements	441,633	706,797
Reverse repurchase agreements	1,497,130	6,314,740
	11,325,754	10,501,914

The majority of the investment products is tradable in inter-bank market.

During the year, the increase in fair value in respect of the Group's current available-for-sale investments recognised in other comprehensive income amounted to RMB319,851,000 (2016: increase in fair value of RMB318,014,000). In addition, upon the disposal of certain current available-for-sale investments during the year, a cumulative gain of RMB1,286,497,000(2016: RMB161,340,000) was transferred from equity and recognised in the consolidated statement of profit or loss.

As at 31 December 2017, no listed available-for-sale equity investments was restricted for trading over certain periods of less than one year (2016: Nil).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000 (Restated)
Forward exchange contracts - cash flow hedges	14,682	(8,537)	263	(31,505)
Forward exchange contracts - non-hedging	922	-	298	-
	15,604	(8,537)	561	(31,505)
Portion classified as non-current	-	-	-	-
Current portion	15,604	(8,537)	561	(31,505)

Forward exchange contracts –– cash flow hedges

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

The terms of the forward exchange contracts have been negotiated to match the expected future sales. The cash flow hedges relating to expected future monthly sales in 2017 and 2018 were assessed to be highly effective and a net loss of RMB 29,730 (net of tax effect) was included in the hedging reserve as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Total fair value losses included in the hedging reserve	41,202	2,509
Deferred tax impact on fair value change	(11,472)	(6,784)
Reclassified from other comprehensive income and recognised in the consolidated statement of profit or loss	-	22,902
Net losses on cash flow hedges	29,730	18,627

Forward exchange contracts –– non - hedging

In addition, the Group has entered into several forward exchange contracts to manage its exchange rate exposures. These forward exchange contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Decreases in the fair value of non-hedging financial derivatives amounting to RMB236,000 (2016: increases in the fair value of RMB1,312,000).

34. DUE FROM CENTRAL BANK, RESTRICTED DEPOSITS, TIME DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
		(Restated)
Cash and bank balances	17,255,619	27,555,169
Time deposits	16,700,976	14,163,537
	33,956,595	41,718,706
Less: Restricted deposits	(565,322)	(801,444)
Cash and bank	33,391,273	40,917,262
Less: Non-restricted time deposits with original maturity over three months	(10,922,202)	(9,720,983)
Cash and cash equivalents	22,469,071	31,196,279
Due from central bank	3,267,497	3,197,369

As at 31 December 2017, restricted deposits amounted to RMB565,322,000 (2016: RMB801,444,000) were held at bank as reserve for issuance letter of credit deposit, bank acceptance deposit and letter of guarantee deposit.

The transactions related to those non-restricted time deposits with original maturity over three months when acquired are stated as investing activities in the consolidated statement of cash flows.

The amount due from the Central Bank as at 31 December 2017 comprised deposit of RMB3,160,806,000 (2016: RMB3,107,667,000) and USD16,328,000 (equivalent to RMB106,691,000) (2016: USD12,931,000 equivalent to RMB89,702,000) with the Central Bank, including a statutory reserve of 7% and 5% (2016: 7% and 5%) for RMB and foreign currency, respectively, on customer deposit held by Finance Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

34. DUE FROM CENTRAL BANK, RESTRICTED DEPOSITS AND CASH AND CASH EQUIVALENTS (CONTINUED)

The Group's and the Company's cash and bank balances and time deposits are denominated in RMB at the end of each reporting date, except for the following:

	2017		2016 (Restated)	
	Original currency in '000	RMB'000	Original currency in '000	RMB'000
Cash and bank balances:				
United States dollars ("USD")	405,619	2,650,398	303,692	2,106,406
Euro ("EUR")	73,989	577,288	57,436	419,635
Japan yen ("JPY")	30,528	1,767	86,167	5,132
Hong Kong dollars ("HKD")	45,984	38,439	39,138	35,008
Indian rupee ("INR")	548,073	55,898	69,957	7,146
Vietnam dong ("VND")	24,285,692	6,987	1,207,738	368
Malaysian ringgit ("MYR")	1,647	2,646	1,779	2,763
Indonesian rupiah ("IDR")	652,991	315	1,169,361	600
Great Britain Pound ("GBP")	288	2,528	-	-
Other	390,485	100,487	391,612	56,616
Time deposits:				
USD	54,700	357,242	16,015	111,023
INR	500,000	50,995	450,000	45,969
Central bank reserve：				
USD	16,328	106,690	12,931	89,702
Restricted deposits：				
USD	616	4,022	2,169	15,039

RMB is not freely convertible into other currencies. However, according to Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations in China, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

35. TRADE PAYABLES AND BILLS PAYABLE

(a) Trade payables

The aging analysis, based on the invoice date, of the trade payables as at balance sheet dates is as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Within 3 months	19,587,369	19,854,476
Over 3 months but within 6 months	4,259,538	3,203,536
Over 6 months but within 1 year	2,431,296	3,187,967
Over 1 year but within 2 years	3,537,206	4,454,286
Over 2 years but within 3 years	2,792,630	726,761
Over 3 years	1,132,173	781,231
	33,740,212	32,208,257

The amounts due to related parties included in trade payables are analysed as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
The ultimate holding company	93,478	-
Associates	193,082	193,111
Joint ventures	16,151	-
SEC group companies	459,382	832,637
Other related companies	23,365	94,037
	785,458	1,119,785

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The amounts due to related parties are negotiated on credit terms similar to those offered by the major suppliers of the Group.

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

	2017 RMB'000	2016 RMB'000 (Restated)
USD	82,141	235,125
JPY	12,908	579,127
EUR	986,507	811,977
GBP	4,618	7,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

35. TRADE PAYABLES AND BILLS PAYABLE (CONTINUED)

(b) Bills payable

The aging analysis of the Group's bills payable as at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Within 3 months	3,340,992	2,531,090
Over 3 months but within 6 months	2,878,513	2,877,513
Over 6 months but within 1 year	925,223	926,576
	7,144,728	6,335,179

The amounts due to related parties included above are analysed as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Associates	70,250	97,800
Joint ventures	-	50
SEC group companies	60,952	118,899
	131,202	216,749

Bills payable are non-interest-bearing.

36. GOVERNMENT GRANTS

	2017 RMB'000	2016 RMB'000 (Restated)
Government grants	1,495,933	1,407,421
Less: Non-current government grants	(1,055,960)	(967,231)
Current government grants	439,973	440,190

37. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000 (Restated)
Advances from customers	43,988,736	44,096,986
Other payables	5,524,563	5,554,612
Dividend payable to non-controlling shareholders	274,796	333,024
Accruals	3,447,235	3,208,842
Payroll payable	3,012,595	2,715,651
Due to the ultimate holding company	29,496	981,706
Due to associates	72,927	28,886
Due to Joint ventures	16,378	-
Due to SEC group companies	103,741	32,577
Due to other related companies	157,234	144,971
	56,627,701	57,097,255

The Group's balance with related parties is unsecured, non-interest-bearing and repayable on demand or within one year.

38. CUSTOMER DEPOSITS

	2017 RMB'000	2016 RMB'000 (Restated)
Deposits from the ultimate holding company	801,284	105,122
Deposits from associates	53,689	143,807
Deposits from SEC group companies	2,076,110	2,016,407
Deposits from other related companies	519	55
Deposits from non-related parties	392,966	161,472
	3,324,568	2,426,863
Repayable:		
On demand	2,974,068	2,100,733
Within 3 months	165,000	199,000
Over 3 months but within 1 year	185,500	127,130
	3,324,568	2,426,863

The annual interest rates of customer deposits provided to related parties range from 0.35% to 2.31% (2016: 0.35% to 2.31%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

39. BORROWINGS

	2017			2016(Restated)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current bank loans						
-Trust loan	1.42-5.04	2018	2,260,220	0.5-7.0	2017	1,954,244
-Trust loan	-	-	-	10% below the base rate	2017	4,800
-Trust loan	-	-	-	16.75% below the annual lending rate announced by the national bank lending center	2017	10,000
-Mortgage loan	4.57-5.22	2018	222,239	3.92-4.79	2017	180,000
-Guaranteed loan	5%-25% above the base rate	2018	16,314	-	-	-
-Guaranteed loan	4.3-4.57	2018	8,100	-	-	-
-Pledge loan	3 months Euribor + 1.35%	2018	32,635	3 months Euribor + 1.60%	2017	272
-Pledge loan	4.56	2018	14,000	-	-	-
-Factoring of trade receivables	-	-	-	4.13-4.22	2017	79,000
Current portion of long-term bank loan						
-Trust loan	4.28	2018	510,195	4.28	2017	214,922
-Trust loan	-	-	-	Libor+365bp	2017	49,491
-Trust loan	Libor+365bp	2018	46,617	-	-	-
-Pledge loan	3 months Euribor + 1.75%	2018	113,630	3 months Euribor + 2.00%	2017	86,182
-Pledge loan	-	-	-	3 months Euribor + 2.25%	2017	3,135
-Mortgage loan	2.70	2018	151	-	-	-
			3,224,101			2,582,046
Non-curren bank loans						
-Trust loan	1.80-4.51	2019	2,271,046	2.00-4.28	2018	958,680
-Trust loan	-	-	-	3.30-4.51	2019	1,658,723
-Trust loan	-	-	-	0.05% below the base rate	2019	20,000
-Mortgage loan	4.75	2019	58,650	4.75	2020	59,650
-Mortgage loan	2.72	2031	52,284	-	-	-
-Guaranteed loan	0.05% below the base rate	2019	20,000	-	-	-
-Guaranteed loan	3.15-4.30	2027	235,071	-	-	-
-Pledge loan	3 months Euribor + 1.75%	2019	59,292	3 months Euribor + 2.25%	2018	104,416
-Pledge loan	3 months Euribor + 2.00%	2020	547,841	3 months Euribor + 2.25%	2020	569,141
-Pledge loan	4.75	2030	900,000	-	-	-
			4,144,184			3,370,610

39. BORROWINGS (CONTINUED)

	2017 RMB'000	2016 RMB'000 (Restated)
Analysed into:		
Bank loans repayable		
within one year or demand	3,224,101	2,582,046
in the second year	2,408,988	1,063,096
in the third to fifth years inclusive	547,841	2,307,514
beyond five years	1,187,355	-
	7,368,285	5,952,656

All borrowings are denominated in RMB, except for the following bank loans:

	2017		2016(Restated)	
	Original currency in '000	RMB equivalent RMB'000	Original currency in '000	RMB equivalent RMB'000
Foreign currency borrowing balances				
USD	180,114	1,176,904	144,136	999,870
EUR	230,484	1,798,307	224,670	1,573,496
MYR	41,000	65,891	68,600	106,512
GBP	63	553	2,648	22,534

As at 31 December 2017, certain of the Group's bank loans are secured by mortgages over certain of the Group's buildings with a net carrying amount of approximately RMB404,395,000 (31 December 2016: building with net carrying amount RMB476,265,000) (Note 14).

As at 31 December 2017, certain of the Group's bank loans are secured by mortgages over certain of the Group's trade receivables with a net carrying amount of approximately RMB19,198,000 (31 December 2016: trade receivables with net carrying amount RMB32,294,000) (Note 28).

As at 31 December 2017, RMB753,398,000 (31 December 2016: RMB763,145,000) of the Group's bank loans are securesd by mortgages over certain of the Group's subsidiary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

39. BORROWINGS (CONTINUED)

As at 31 December 2017, none of the accounts receivable were factored with recourse to obtain certain bank facilities (31 December 2016: RMB72,624,000) (Note 28).

	Carrying amount		Fair values	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
		(Restated)		**(Restated)**
Floating rate bank loans	**627,133**	673,557	**627,133**	673,557
Fixed rate bank loans	**3,517,051**	2,697,053	**3,428,964**	2,493,469
	4,144,184	3,370,610	**4,056,097**	3,167,026

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.75% (2016: 4.75%) and are within level 2 of the fair value hierarchy.

40. PROVISIONS

	Product warranty RMB'000	Onerous contracts and legal provision RMB'000	Early retirement benefits and staff severance costs RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017 (Restated)	1,922,575	1,782,721	153,931	140,108	3,999,335
Additional provisions	930,410	1,141,072	31,525	206,213	2,309,220
Reversal during the year	(121,112)	(254,915)	-	(217,583)	(593,610)
Amounts utilised during the year	(583,888)	(770,435)	(30,281)	(77,184)	(1,461,788)
At 31 December 2017	2,147,985	1,898,443	155,175	51,554	4,253,157
Less: current portion repayable within 12 months	2,038,579	1,898,443	20,764	51,554	4,009,340
Non-current portion	109,406	-	134,411	-	243,817

Product warranty provision

The Group provides warranties ranging from one to two years to its customers on certain products and undertakes to repair or replace items that fail to perform satisfactorily. The amount of the provision for warranties is estimated based on the sales volume and past experience on the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Onerous contracts provision

The Group has entered into several contracts in respect of the sale of power equipment and nuclear island equipment. Under these contracts, the unavoidable costs of meeting the obligations have exceeded the economic benefits expected to be received as at 31 December 2017. Provision has been made for these onerous contracts based on the estimated minimum net cost of exiting from the contracts.

Early retirement benefits and staff severance costs

The Group implemented plans for early retirement, termination of employment or offer to encourage voluntary redundancy for certain employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

41. BONDS

	2017			2016(Restated)		
	Effective interest rate (%)	Due date	RMB'000	Effective interest rate (%)	Due date	RMB'000
Bonds payable due within one year						
- 12 Electric bond 02 (a)	5.03	2018	1,599,506	-	-	-
- PMC bond (d)	-	-	-	5.08	2017	499,043
			1,599,506			499,043
Bonds payable due after one year						
- 12 Electric bond 02 (a)	-	-	-	5.03	2018	1,597,662
- Electric convertible bond (b)	5.03	2021	5,383,674	5.03	2021	5,175,913
- Electric euro bond (c)	1.19	2020	4,674,353	1.19	2020	4,374,802
			10,058,027			11,148,377
			11,657,533			11,647,420

	2017 RMB'000	2016 RMB'000 (Restated)
Analysed as：		
Within one year or on demand	1,599,506	499,043
Within two years	-	1,597,662
Within three to five years, including head and tail	10,058,027	9,550,715
	11,657,533	11,647,420

41. BONDS (CONTINUED)

	2017		2016(Restated)	
	Original currency in '000	**RMB equivalent RMB'000**	**Original currency in '000**	**RMB equivalent RMB'000**
Balance of bonds payable denominated in foreign currency				
EUR	**599,099**	**4,674,353**	598,730	4,374,802
	599,099	**4,674,353**	598,730	4,374,802

(a) Approved by the China Securities Regulatory Commission ("CSRC") (Zheng Jian Xu Ke [2012]1703), on 27 February 2013, the Company issued three-year fixed rate bonds with an offering size of RMB400 million and coupon rate of 4.5% and five-year fixed rate bonds with an offering size of RMB1,600 million and coupon rate of 4.9%, as the first tranche. The Bonds were issued at par value and the interest is settled on an annual basis with the principal payable in full when due. No guarantee was provided for the bonds. The maturity dates of the Bonds are 27 February 2016 and 27 February 2018, respectively. The Group has paid the principal and interest of 12 Electric bond 01 on 29 February 2016.

(b) On 2 February 2015, the Group issued a convertible bond due in 2021 with the principal amounting to RMB6 billion. Such convertible bond could be converted into the Company's A share at RMB10.72 per share since 3 August 2015, at RMB10.66 per share due to the distribution of cash dividends for the year ended at 31 December 2014 on July 2015, at RMB10.65 per share since 28 November 2016 due to the issue of new shares to acquire the business under the common control on 29 August 2016 and at RMB10.46 per share since 24 October 2017 due to the issue of news to acquire the business under the common control on 19 October 2017. Interest is accrued and paid on a yearly basis and the principle and the interest will be repaid upon maturity. The nominal interest rates are: 0.2% for the first year, 0.5% for the second year, 1.0% for the third year, 1.5% for the fourth year, 1.5% for the fifth year and 1.6% for the sixth year.

The principle of the convertible bond, deducted by issuance costs, was divided into two parts on the issuance of the bond. Liability of RMB4,745,903,000 was charged into bonds payable and equity of RMB1,214,919,000 was credited into capital surplus.

(c) On 22 May 2015, the Group's wholly-owned subsidiary, SEC Newage Co., Ltd. issued a bond of EUR600 million, eurobonds, secured by the Group, at Ireland Stock Exchange, with a term of 5 years and annual interest rate of 1.125%.

(d) On 31 Aug 2012, the Group's subsidiary, PMC issued a bond of RMB500 million ('PMC bond'), with an option granted to the bondholders to redeem wholly or partly at 100% of the principal amount exercisable for one time on the third anniversary since the date of issue. The PMC bond carried interest at a fixed rate of 5.08% per annum for the first three years, with an option granted to the PMC to increase the interest rate for one time on the third anniversary since the date of issue. Interest is payable annually on 31 August. The PMC bond was unsecured and guaranteed by SEC. The PMC bond was reclassified as current liabilities on 31 December 2016 since the due date of the bond was 31 August 2017. The Group has paid the principal and interest of PMC bond on 31 Aug 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

42. OTHER NON-CURRENT LIABILITIES

	2017 RMB'000	2016 RMB'000 (Restated)
Relocation compensation	317,305	217,994
Defined benefit obligations	138,778	129,333
Finance leases deposits	756,918	780,830
Liabilities for sales with buyback agreements	167,935	493,408
Non-interest-bearing loans	1,258	1,258
R&D Subsidies	42,315	50,668
Others	7,797	11,248
Due to SEC group companies	-	23,163
Due to the ultimate holding company	32,620	-
Due to associates	-	51,362
	1,464,926	1,759,264

43. SHARE CAPITAL

Shares

	2017 RMB'000	2016 RMB'000
Registered, issued and fully paid:		
A shares of RMB1.00 each	11,752,269	10,458,244
H shares of RMB1.00 each	2,972,912	2,972,912
Total	14,725,181	13,431,156

A summary of the transactions during the year with reference to the movements in the Company's issued capital and share premium account is as follows:

	Number of shares in issue RMB'000	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 31 December 2015, 1 January 2016	12,824,305	12,824,305	3,614,095	16,438,400
Additions	606,851	606,851	4,586,573	5,193,424
At 31 December 2016, 1 January 2017	13,431,156	13,431,156	8,200,668	21,631,824
Additions	1,294,025	1,294,025	4,496,721	5,790,746
31 December 2017	14,725,181	14,725,181	12,697,389	27,422,570

44. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital reserve

The capital reserve of the Group includes the share premium and the non-distributable reserves of the Company and its subsidiaries recognised in accordance with the accounting and financial regulations of the PRC.

In October 2017, the Company has completed the asset acquisition transaction with SE Corporation and issued a total of 877,918,000 A Shares of the Company, Renminbi-denominated ordinary A Shares with par value of RMB1.00 each, to SE Corporation by way of non-public issuance as the consideration. The issue price was RMB7.55 per A Share and the total consideration was of RMB6,628,281,000. The amount of RMB1,927,644,000, representing the difference between the total consideration and share capital of RMB877,918,000, net off the acquired entities' equity with the carrying amount of RMB3,822,719,000, was recognised in capital reserve.

In November 2017, the Company has issued a total of 416,089,000 A Shares of the Company, Renminbi-denominated ordinary A Shares with par value of RMB1.00 each, to ten specific investors, including SE Corporation, by way of non-public issuance. The issue price was RMB7.21 per A Share and the total proceeds raised was of RMB3 billion. The amount of RMB2,568,911,000, representing the difference between the total proceeds raised and share capital, net off the issuance cost of RMB15,000,000, was recognised in capital reserve.

Contributed surplus

The Group's contributed surplus represents the excess of (i) the Company's cost of investments in the net assets of subsidiaries and an associate acquired from SE Corporation as part of the Group reorganisation over (ii) the aggregate amount of the paid-up capital of these subsidiaries attributable to the Group and the carrying value of the Group's investment in the associate upon the establishment of the Company.

Surplus reserves

In accordance with the PRC Company Law and the Group companies' articles of association, the Company and its subsidiaries are required to transfer a certain percentage of their net profits after tax to the surplus reserves, comprising the statutory surplus reserve and discretionary surplus reserve. Subject to certain restrictions set out in the relevant PRC regulations and in the Group companies' articles of association, the statutory surplus reserve may be used either to offset losses, or to be converted to share capital, and the discretionary surplus reserve is set aside to cover losses. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

Distributable reserves

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB11,186,881,000 (2016: RMB10,085,366,000).

The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with generally accepted accounting principles in the PRC and those under HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

45. CASH FLOW INFORMATION

(a) Cash flows from operating activities

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
		(Restated)
Cash flows from operating activities		
Profit before tax	5,365,249	5,925,353
Adjustments for:		
Finance Company:		
Interest income from banks and other financial institutions	(517,380)	(283,648)
Interest income on loans receivable and discounted bills receivable	(241,956)	(239,981)
Finance lease income	(734,444)	(729,593)
Interest income on debt investments	(350)	(16,349)
Dividend income from equity investments and investment funds	(152,406)	(172,002)
Gains on disposal of items of property, plant and equipment, net	(132,658)	(1,917)
Gains on disposal of land use rights	-	(1,694)
Gains on disposal of subsidiaries	(13,647)	(222,690)
Gains on disposal of associates	(19,757)	(124,468)
Investments at fair value through profit or loss:		
Unrealised fair value gains, net	3,919	(199)
Realised fair value gains, net	14,698	(13,955)
Derivative financial instruments - transactions not qualifying as hedges:		
Unrealised fair value gains, net	(236)	1,312
Realised gains on available-for-sale investments (transferred from equity)	(1,395,268)	(172,016)
Other gains	(15,904)	(34,901)
Depreciation of property, plant and equipment	1,739,061	1,554,573
Depreciation of investment properties	100,514	60,633
Amortisation of prepaid land lease payments	208,648	91,950
Amortisation of intangible assets	127,056	130,384
Depreciation of other non-current assets	73,811	53,894
Early retirement benefits and staff severance costs	26,392	47,042
Write-down of inventories to net realisable value	903,107	842,317
	(26,800)	768,692

45. CASH FLOW INFORMATION (CONTINUED)

(a) Cash flows from operating activities (continued)

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000 (Restated)
Cash flows from operating activities (continued)		
Share of profits of joint ventures	(570,118)	(205,960)
Share of profits of associates	(772,374)	(620,058)
Impairment of trade receivables and other receivables	1,437,055	741,977
Impairment of loans receivable	317,358	27,174
Impairment of lease receivables and long-term receivables	200,804	127,835
Impairment/(reversal) of discounted bills receivable	1,175	(4,692)
Impairment of items of property, plant and equipment	2,242	103,596
Impairment of available-for-sale investments	8,627	-
Impairment of goodwill	15,731	93,486
Impairment of joint venture	-	444,098
Impairment of associate	7,008	-
Provision for product warranty	809,298	977,772
Provision for onerous contracts	886,157	957,794
Other provisions	(11,370)	61,795
Finance costs	458,258	354,328
Exchange gains, net	19,993	(136,448)
	2,809,844	2,922,697
(Increase)/decrease in inventories	(7,656,112)	633,047
Increase in construction contracts	(586,403)	(1,825,314)
Increase in trade receivables and other receivables	(6,768,682)	(2,753,004)
(Increase)/decrease in other non-current assets	(213,269)	27,428
Increase in trade payables, bills payable, other payables and accruals	2,158,788	8,058,285
Utilisation of product warranty provision and other provisions	(1,461,788)	(1,535,688)
Cash (outflow)/inflow from operations	(6,379,173)	12,221,496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

45. CASH FLOW INFORMATION (CONTINUED)

(b) Net debt reconciliation

	Year ended 31 December	
	2017	**2016**
Net Debt	**RMB'000**	**RMB'000**
		(Restated)
Cash and cash equivalents	22,469,071	31,196,279
Liquid investments	75,995	190,998
Borrowings-repayable within one year	(3,224,101)	(2,582,046)
Borrowings-repayable after one year	(4,144,184)	(3,370,610)
Bonds-repayable within one year	(1,599,506)	(499,043)
Bonds-repayable after one year	(10,058,027)	(11,148,377)
Net Debt	3,519,248	13,787,201
Cash and Liquid investments	22,545,066	31,387,277
Gross Debt-fixed interest rates	(18,209,489)	(16,787,711)
Gross Debt-variable interest rates	(816,329)	(812,365)
Net Debt	3,519,248	13,787,201

	Other assets		Liabilities from financing activities				
	Cash and cash equivalents	**Liquid invest-ments**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Bonds due within 1 year**	**Bonds due after 1 year**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Net debt as at 1 January 2016	34,741,574	89,529	(2,138,958)	(2,461,708)	(399,834)	(11,290,383)	18,540,220
Cash flows	(3,672,464)	101,469	(303,711)	(939,481)	416,067	-	(4,398,120)
Foreign exchange adjustments	127,169	-	(20,060)	(88,738)	-	(126,614)	(108,243)
Other non-cash movements	-	-	-	-	(16,233)	(230,423)	(246,656)
Liabilities due after 1 year transferred to due within 1 year	-	-	(119,317)	119,317	(499,043)	499,043	-
Net debt as at 31 December 2016	31,196,279	190,998	(2,582,046)	(3,370,610)	(499,043)	(11,148,377)	13,787,201
Cash flows	(8,654,763)	(115,003)	(27,599)	(1,354,250)	525,400	-	(9,626,215)
Foreign exchange adjustments	(72,445)	-	(8,535)	(40,245)	-	(296,671)	(417,896)
Other non-cash movements	-	-	-	-	(26,357)	(212,485)	(238,842)
Liabilities due after 1 year transferred to due within 1 year	-	-	(620,921)	620,921	(1,599,506)	1,599,506	-
Disposal of subsidiary	-	-	15,000	-	-	-	15,000
Net debt as at 31 December 2017	22,469,071	75,995	(3,224,101)	(4,144,184)	(1,599,506)	(10,058,027)	3,519,248

46. CONTINGENT LIABILITIES AND FINANCIAL GUARANTEES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Guarantees given to banks in connection with facilities granted to:		
- Associates	190,290	34,201
Guarantees given to banks in connection with facilities utilised by:		
- Associates	186,691	5,900
Non-financial guarantee letters issued by Finance Company on behalf of:		
- Associates	2,631	3,690

(a) As of 31 December 2017, non-financial guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB21,991,183,000 (2016: RMB21,723,391,000).

(b) As of 31 December 2017, contingent liabilities amounted to RMB62,357,000 relating to pending lawsuits and arbitration (2016: RMB36,922,000).

47. LEASING

(a) As lessor

The Group leases certain of its properties and plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years and those for plant and machinery are negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Within one year	99,823	79,750
In the second to fifth years, inclusive	234,017	242,311
After five years	19,988	13,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	353,828	335,310

47. LEASING (CONTINUED)

(b) As lessee

The Group leases certain properties, plant and machinery and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 50 years, while those for plant and machinery are for terms ranging from 1 to 20 years and those for motor vehicles are for a term of one year.

As at 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Within one year	270,676	91,229
In the second to fifth years, inclusive	374,805	188,517
After five years	335,227	112,055
	980,708	391,801

48. COMMITMENTS

As at 31 December 2017, the Group had the following capital commitments:

	2017 RMB'000	2016 RMB'000 (Restated)
Contracted, but not provided for:		
In respect of the acquisition of		
- Land and buildings	148,170	2,652
- Plant and machinery	946,494	1,322,310
In respect of capital contribution to		
- Associates	-	-
	1,094,664	1,324,962
Authorised, but not contracted for:		
In respect of the acquisition of		
- Plant and machinery	-	188,920
Investment in the following companies		
– Associates	-	495,000
	1,094,664	2,008,882

49. BUSINESS COMBINATION INVOLVING ENTERPRISES UNDER COMMON CONTROL

(a) Subsidiaries

	Place of main operations	Place of registration	Nature of business	Shareholding (%)		Registered capital (RMB)
				Direct	Indirect	
Shanghai Prime Machinery Co., Ltd. ("PMC")	Shanghai	Shanghai	Manufacturing	47.18	-	1,438,286,184
Thales SEC Transportation System Limited Company ("TST")	Shanghai	Shanghai	Manufacturing	50.10	-	200,000,000
Shanghai Electric Group Asset Management Co., Ltd. ("SEGAM")	Shanghai	Shanghai	Manufacturing	100.00	-	658,000,000

(b) Business combination involving enterprises under common control in the current year

Combined party	Proportion acquired	Basis of business combination involving enterprises under common control	Combination date	Basis for determining the combination date	Revenue of the combined party for the period from 1 January 2017 to the combination date	Net profit of the combined party for the period from 1 January 2017 to the combination date	Revenue of the combined party for the year ended 31 December 2016	Net profit of the combined party for the year ended 31 December 2016
PMC	47.18%	Note	29 August 2017	Framework with equity replacement completed on 29 August 2017	5,721,217	190,071	7,784,967	203,149
TST	50.10%	Note	29 August 2017	Framework with equity replacement completed on 29 August 2017	699,182	50,315	860,845	74,116
SEGAM	100.00%	Note	29 August 2017	Framework with equity replacement completed on 29 August 2017	451,173	120,405	1,176,683	203,583

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FOR THE YEAR ENDED 31 DECEMBER 2017

Note：These companies are all controlled by SEC.

49. Business combinations involving enterprises under common control (continued)

(c) Assets and liabilities of the combined parties as at 31 December 2016 are analysed as follows:

	Carrying amount as at 31 December 2016		
	PMC	TST	SEGAM
Cash and bank	1,174,835	282,555	535,155
Accounts receivable	1,225,995	169,128	6,294
Prepayments, deposits and other receivables	134,555	45,721	31,019
Inventories	1,671,428	375,688	85,001
Other investments	872	-	-
Investment in joint venture	1,311	-	-
Investment in associate	174,472	8,040	-
Investment properties	-	-	676,467
Property, plant and equipment	2,141,022	34,338	958
Intangible assets	19,290	34,564	-
Prepaid land lease payments	142,850	-	-
Other assets	2,433,573	28,151	135,040
Borrowings	(2,545,938)	-	-
Accounts payable	(1,371,103)	(248,939)	(3,548)
Other payables and accruals	(47,828)	(220,046)	(254,493)
Other liabilities	(1,808,846)	(157,695)	(136,976)
Net assets	3,346,488	351,505	1,074,917
Less: Minority interests	(45,723)	-	-
Net assets acquired	3,300,765	351,505	1,074,917

49. Business combination involving enterprises under common control (continued)

(d) Assets and liabilities of the combined parties as at the combination date are analysed as follows:

	Carrying amount as at the combination date		
	PMC	TST	SEGAM
Cash and bank	958,904	274,894	598,361
Accounts receivable	1,376,236	164,725	17,394
Prepayments, deposits and other receivables	60,877	20,820	25,600
Inventories	1,709,663	583,951	88,311
Other investments	872	-	-
Investment in joint venture	1,311	-	-
Investment in associate	160,921	8,040	-
Investment properties	-	-	671,781
Property, plant and equipment	2,143,788	30,041	689
Intangible assets	29,572	31,562	-
Prepaid land lease payments	140,541	-	-
Other assets	2,587,288	30,562	196,013
Borrowings	(3,007,416)	-	-
Accounts payable	(1,320,515)	(374,454)	(2,864)
Other payables and accruals	(65,049)	(203,291)	(207,467)
Other liabilities	(1,317,262)	(182,527)	(192,497)
Net assets	3,459,731	384,323	1,195,321
Less: Minority interests	(46,541)	-	-
Net assets acquired	3,413,190	384,323	1,195,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

50. Sales of subsidiary equity

(a) On 28 February 2017, the company disposed its wholly-owned subsidiary, Nantong Water Treatment Co., Ltd. (Hereinafter "Nantong Water Treatment"). Therefore, the Group excluded Nantong Water Treatment from the consolidation scope since the date of losing control.

Information related to the disposal of subsidiaries in the period are summarised below:

	Amount RMB'000
Consideration obtained from disposal of subsidiaries	35,764
Less: Net assets disposed	(22,117)
	13,647

51. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of SE Corporation, which is a state-owned enterprise subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities and other state-owned entities.

(1) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2017 RMB'000	2016 RMB'000 (Restated)
Purchase of materials from:		
Associates	2,694,338	2,589,601
SEC group companies	51,434	22,180
Other related companies	1,757,330	1,668,295
Joint ventures	581,568	-
	5,084,670	4,280,076
Sales of materials to:		
The ultimate holding company	6,959	853
Associates	124,780	60,915
SEC group companies	374,158	382,276
Other related companies*	3,017,404	4,519,473
	3,523,301	4,963,517
Construction contracts from:		
Other related companies	2,999,922	1,450,626
Sale of scrap and spare parts to:		
Associates	7,352	1,897
Purchases of services from:		
Associates	1,388	3,681
SEC group companies	54,466	3,556
Other related companies	11,020	27,301
	66,874	34,538
Provision of services to:		
The ultimate holding company	4,962	25,241
Associates	55,263	56,394
SEC group companies	77,760	80
Other related companies	-	1,242
	137,985	82,957
Purchases of equipment from:		
SEC group companies	-	1,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

51. RELATED PARTY TRANSACTIONS (CONTINUED)

(1) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year (continued):

* As the financial performance of certain subsidiaries of Group collective is expected to be significant to the consolidated financial performance of the Group, Shanghai Electric Power Co., Ltd. ("Shanghai Electric Power"), a minority shareholder that have significant influence over those subsidiaries, is regarded as a related party of the Group since 1 January 2015. The transactions and balance with this related party for the year ended 31 December 2017 have been included above.

	2017 RMB'000	2016 RMB'000 (Restated)
Rental income from:		
Associates	16,905	13,786
SEC group companies	13,848	9,826
Other related companies	599	25,745
	31,352	49,357
Rental fee to:		
The ultimate holding company	24,614	161,779
SEC group companies	5,237	8,808
	29,851	170,587

Note: The rental income and rental fee were based on mutually agreed terms with reference to the market rates.

(2) Guarantees provided to/by related parties of the Group

As at 31 December 2017, the Group provided guarantee which amount to no more than RMB37,290,000 for the borrowings that associate, Nabtesco Precision obtained. As at 31 December 2017, the Group actual guarantee amounted to JPY297,000,000 and RMB16,500,000; and the Group provided RMB153,000,000 of guarantee to Chongqing Shenhua Thin Film Solar Power Technology Co., Ltd., an associate of the Group; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB2,631,000 (31 December 2016: RMB3,690,000).

(3) Deposits and loan services provided to related parties by Finance Company

	2017 RMB'000	2016 RMB'000 (Restated)
Interest expenses for customer deposits:		
The ultimate holding company	5,529	3,754
Associates	267	748
SEC group companies	12,569	6,323
Other related companies	15	9
	18,380	10,834
Interest income for loans and bills discounted:		
The ultimate holding company	79,435	41,993
Associates	12,300	3,305
SEC group companies	160,134	95,111
Other related companies	4,843	1,132
	256,712	141,541

Interest rates for customer deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by Central Bank.

51. RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Balances due from/to related parties

The balances due from/to related parties mainly resulted from loans, trading transactions, customer deposits, discounted bills receivable and miscellaneous amounts reimbursable by/to the related parties. Further details are set out in Notes 22, 28, 29, 30, 31, 35, 37, 38 and 42, respectively.

(5) Transactions and balances with other state-owned entities

The Group enters into extensive transactions covering purchases of materials, property, plant and equipment, receiving of services, sale of goods, rendering of services and making deposits and borrowings with state-owned entities, other than the SEC group companies, in the normal course of business at terms comparable to those with other non-state-owned entities.

(6) Compensation of key management personnel of the Group:

	2017 RMB'000	2016 RMB'000 (Restated)
Fees	750	750
Salaries, bonuses and allowances received from the Group	5,960	6,451
Pension scheme contributed by the Group	128	125
Other social benefit schemes contributed by the Group	150	147
	6,988	7,473

Further details of directors' and supervisors' emoluments are included in Note 55 to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

52. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

Financial assets

	2017					
	Financial assets at fair value through profit or loss	Derivative financial instruments designated as hedging instruments	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans receivable	-	-	-	6,968,667	-	6,968,667
Lease receivables	-	-	-	11,386,867	-	11,386,867
Equity investments	54,589	-	-	-	765,654	820,243
Debt investments	21,401	-	-	-	174,247	195,648
Investment products	-	-	-	-	8,512,412	8,512,412
Reverse repurchase agreements	-	-	-	1,497,130	-	1,497,130
Trade receivables	-	-	-	27,905,847	-	27,905,847
Discounted bills receivable	-	-	-	179,926	-	179,926
Bills receivable	-	-	-	10,106,004	-	10,106,004
Financial assets included in prepayments, deposits and other receivables	-	-	-	1,438,313	-	1,438,313
Investment funds	5	-	-	-	499,583	499,588
Derivative financial instruments	922	14,682	-	-	-	15,604
Convertible debenture arrangements	441,633	-	-	-	-	441,633
Due from the Central Bank	-	-	-	3,267,497	-	3,267,497
Restricted deposits	-	-	-	565,322	-	565,322
Cash and cash equivalents	-	-	-	22,469,071	-	22,469,071
Time deposits with original maturity over three months	-	-	-	10,922,202	-	10,922,202
	518,550	14,682	-	96,706,846	9,951,896	107,191,974

52. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	2017			
	Financial liabilities at fair value through profit or loss RMB'000	Derivative financial instruments designated as hedging instruments RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	-	-	33,740,212	33,740,212
Bills payable	-	-	7,144,728	7,144,728
Financial liabilities included in other payables and accruals	-	-	9,638,293	9,638,293
Customer deposits	-	-	3,324,568	3,324,568
Bank and other borrowings	-	-	7,368,286	7,368,286
Financial liabilities included in other non-current liabilities	-	-	943,706	943,706
Bonds	-	-	11,657,533	11,657,533
Derivative financial instruments	-	26,788	-	26,788
	-	26,788	73,817,326	73,844,114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

52. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets

	2016 (Restated)					
	Financial assets at fair value through profit or loss	Derivative financial instruments designated as hedging instruments	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans receivable	-	-	-	6,667,625	-	6,667,625
Lease receivables	-	-	-	11,410,897	-	11,410,897
Equity investments	33,675	-	-	-	864,324	897,999
Debt investments	40,921	-	-	-	370,791	411,712
Investment products	-	-	-	-	1,269,681	1,269,681
Reverse repurchase agreements	-	-	-	6,314,740	-	6,314,740
Trade receivables	-	-	-	26,499,880	-	26,499,880
Discounted bills receivable	-	-	-	189,052	-	189,052
Bills receivable	-	-	-	7,241,022	-	7,241,022
Financial assets included in prepayments, deposits and other receivables	-	-	-	1,957,423	-	1,957,423
Investment funds	116,402	-	-	-	1,914,702	2,031,104
Derivative financial instruments	298	263	-	-	-	561
Convertible debenture arrangements	706,797	-	-	-	-	706,797
Due from the Central Bank	-	-	-	3,197,369	-	3,197,369
Restricted deposits	-	-	-	801,444	-	801,444
Cash and cash equivalents	-	-	-	31,196,279	-	31,196,279
Time deposits with original maturity over three months	-	-	-	9,720,983	-	9,720,983
	898,093	263	-	105,196,714	4,419,498	110,514,568

52. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	2016 (Restated)			
	Financial liabilities at fair value through profit or loss	Derivative financial instruments designated as hedging instruments	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	-	-	32,208,257	32,208,257
Bills payable	-	-	6,335,179	6,335,179
Financial liabilities included in other payables and accruals	-	-	10,443,367	10,443,367
Customer deposits	-	-	2,426,863	2,426,863
Bank and other borrowings	-	-	5,952,656	5,952,656
Financial liabilities included in other non-current liabilities	-	-	1,285,263	1,285,263
Bonds	-	-	11,647,420	11,647,420
Derivative financial instruments	-	31,505	-	31,505
	-	31,505	70,299,005	70,330,510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

53. SUBSEQUENT EVENTS

a) In September 2013, the Group entered into an EPC Project Contract with Xinjiang Jiarun Resources Holdings Co., Ltd. ('Xinjiang Jiarun') with a total consideration of RMB2 billion and Xinjiang Jiarun pledged 20% of its own shares as guarantee for the project payments. The engineering construction project has been completed and was certified in written in 2015.

On 7 August 2014, Xinjiang Jiarun entered into a Financial Leasing Contract with Shanghai Electric Leasing Co., Ltd. ("Shanghai Electric Leasing") with a total amount of RMB740 million to finance those machinery and equipment of above mentioned project. Qingdao Antaixin Group Company Limited ("Antaixin Company"), as the shareholder of Xinjiang Jiarun and Wang Zhijun, as the de facto controller of Antaixin Company, have provided jointly guarantees for this Financial Leasing Contract in favour of Shanghai Electric Leasing. In addition, Shanghai Electric Leasing also entered into a Mortgage Contract with Qingdao Shengshi Jiaye Business Development Co., Ltd. ("Shengshi Jiaye") and Shengshi Jiaye has pledged its real estates in favour of Electric Leasing under this Contract.

During the year of 2017, since Xinjiang Jiarun and its guarantor, Antaixin Company have defaulted on the repayments of EPC project payments and the related interests. The Company applied to the Court against Wang Zhijun and Guan Hongyan (collectively the "Defendants") and asked them to pay the Group all due payments and interests of RMB957,019,000, as well as any related legal costs; Since Xinjiang Jiarun also defaulted on the finance lease payments, Shanghai Electric Leasing applied to the Court against Xinjiang Jiarun and asked it to paid all its due and undue payments in an aggregate amount of RMB746,535,000, other penalties and fees of RMB151,499,000, as well as any related legal costs. Meanwhile, Antaixin Company and Wang Zhijun shall assume the jointly obligations as the guarantors of Xinjiang Jiarun.

As at 31 December 2017, above-mentioned two lawsuits were under trial and the Group has made corresponding accounting treatment for the related receivables.

b) On 14 November 2017, the proposal on issue of exchangeable corporate bonds was approved on the Borad meeting of the Company. On 29 December 2017, the extraordinary general meeting of the Company approved the public issuance of exchangeable corporate bonds.

On 13 March 2018, the Company received the "Approval for Public Issuance of Exchangeable Corporate Bonds to Qualified Investors by Shanghai Electric Group Company Limited" (Zheng Jian Xu Ke [2018] No.420) from the China Securities Regulatory Commission (the "CSRC").

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	1,952,472	1,409,637
Investment properties	37,399	39,880
Prepaid land lease payments	4,286,330	2,781,458
Intangible assets	60,103	114,283
Investments in subsidiaries	27,915,209	24,648,090
Investments in associates	2,584,161	2,059,161
Available-for-sale investments	782,004	746,616
Loans receivable	269,000	-
Deferred tax assets	1,077,837	1,045,538
Other non-current assets	1,932,811	289
Total non-current assets	40,897,326	32,844,952
Current assets		
Inventories	736,438	77,426
Construction contracts	2,438,194	1,311,237
Trade receivables	14,880,750	14,427,261
Loans receivable	1,796,560	579,000
Bills receivable	1,591,021	522,380
Prepayments, deposits and other receivables	20,078,782	18,053,467
Investments	-	150,000
Cash and bank	22,149,538	25,962,099
Total current assets	63,671,283	61,082,870
Total assets	104,568,609	93,927,822

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (continued)

	Note	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Equity and liabilities			
Liabilities			
Non-current liabilities			
Bonds		5,383,674	6,773,575
Other non-current liabilities		58,077	61,743
Total non-current liabilities		5,441,751	6,835,318
Current liabilities			
Bonds		1,599,506	-
Trade payables		24,153,205	25,133,432
Bills payable		1,321,253	1,457,587
Government grants		893	893
Other payables and accruals		22,678,789	22,974,662
Bank and other borrowings		3,375,000	1,510,000
Tax payable		91,951	-
Provisions		275,876	434,586
Total current liabilities		53,496,473	51,511,160
Total liabilities		58,938,224	58,346,478
Equity			
Equity attributable to owners of the Company			
Share capital		14,725,181	13,431,156
Reserves	(a)	19,173,681	11,470,069
Retain earnings	(a)	11,731,523	10,680,119
Total equity		45,630,385	35,581,344
Total equity and liabilities		104,568,609	93,927,822

54. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve/Retained earnings movement of the Company

	Capital surplus RMB'000	Surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	4,966,280	1,814,592	8,804,648	15,585,520
Total comprehensive income for the year	(87,996)	-	2,066,091	1,978,095
Equity in convertible bonds	72	-	-	72
Acquisition of assets through private offering	2,478,317	-	-	2,478,317
Business combination involving enterprises under common control	2,108,184	-	-	2,108,184
Appropriation of statutory surplus reserves	-	190,620	(190,620)	-
As at 31 December 2016 and 1 January 2017	9,464,857	2,005,212	10,680,119	22,150,188
Total comprehensive income for the year	(79,003)	-	1,173,794	1,094,791
Equity in convertible bonds	166	-	-	166
Acquisition of assets through private offering	1,927,644	-	-	1,927,644
Business combination involving enterprises under common control	2,998,211	-	-	2,998,211
Non public issue of new shares	2,568,911	-	-	2,568,911
Others	165,293	-	-	165,293
Appropriation of statutory surplus reserves	-	122,390	(122,390)	-
As at 31 December 2017	17,046,079	2,127,602	11,731,523	30,905,204

As at 31 December 2017, balance of capital surplus included the Company's share premium of RMB11,186,880,000 (31 December 2016: RMB10,835,366,000) (Note 44).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

55. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The Company does not have a chief executive who has no directorship of the Company. Directors' emoluments for the year ended 31 December 2017, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Social security costs RMB'000	Total RMB'000
Mr. Zheng Jianhua	-	771	-	40	811
Mr. Jian Xunming	250	-	-	-	250
Mr. Zhu Junhao	250	-	-	-	250
Mr. Lv Xinrong	250	-	-	-	250
Mr. Zhu Kelin	-	-	-	-	-
Ms. Yao Minfang	-	-	-	-	-
Mr. Li Jianjin	-	-	-	-	-

Directors' emoluments for the year ended 31 December 2016, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Social security costs RMB'000	Total RMB'000
Mr. Zheng Jianhua	-	771	-	37	808
Mr. Huang Ou (a)	-	694	-	37	731
Mr. Jian Xunming	250	-	-	-	250
Mr. Zhu Junhao	250	-	-	-	250
Mr. Lv Xinrong	250	-	-	-	250
Mr. Zhu Kelin	-	-	-	-	-
Ms. Yao Minfang	-	-	-	-	-
Mr. Li Jianjin	-	-	-	-	-
Mr. Huang Dinan (b)	-	-	-	-	-

(a) Mr.Huang Ou resigned as Director with effect from 20 January 2017.

(b) Mr.Huang Dinan resigned as Director with effect from 1 September 2017.