上海电气
SHANGHAI ELECTRIC

2018 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 2018 was

¥ 101,158 million

an increase of

27.17%

year-on-year

Profit attributable to owners of the Company for 2018 reached

¥ 2,980 million

an increase of

13.44%

year-on-year

Basic earnings per share for 2018 were

¥ 20.24 cents

an increase of

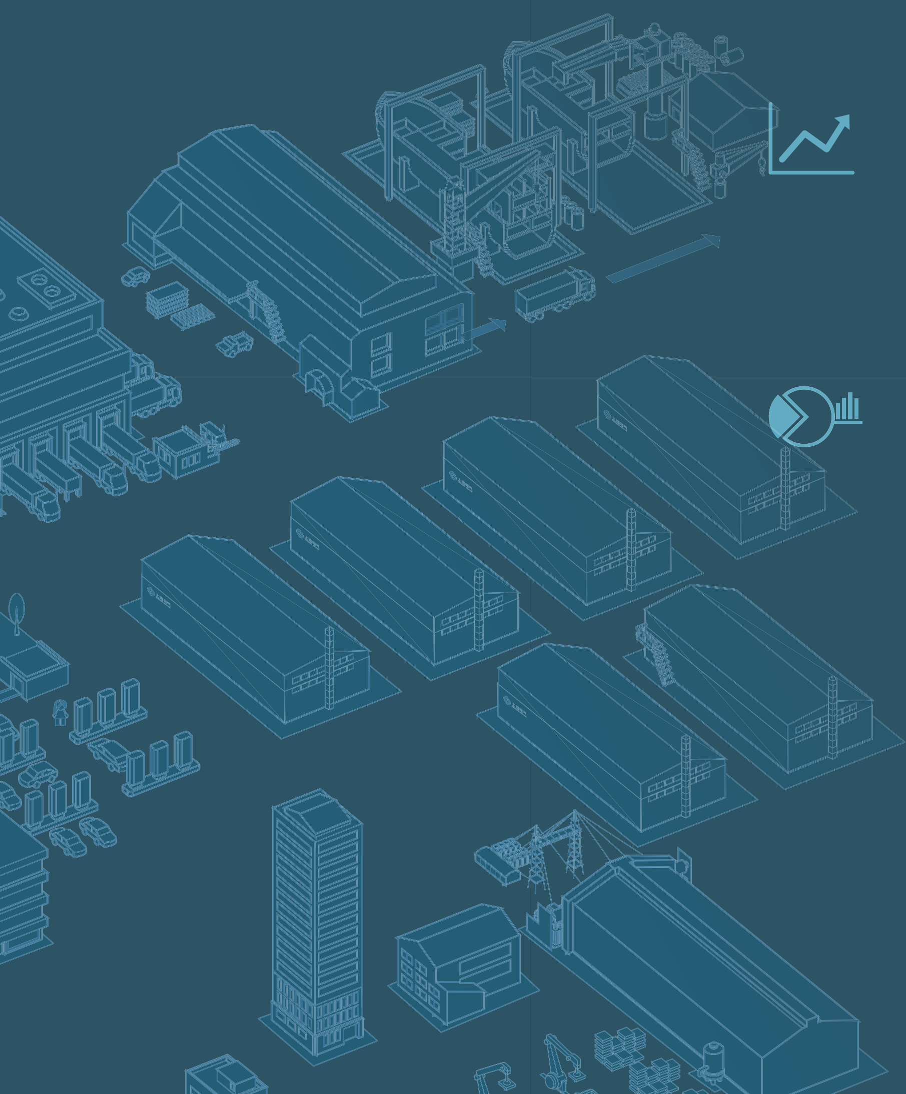
8.12%

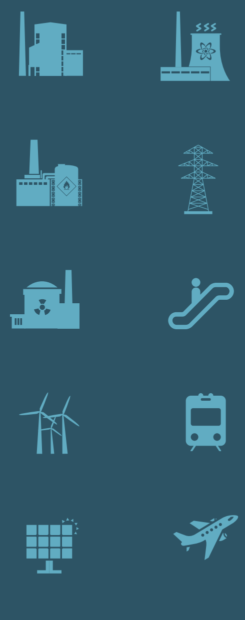
year-on-year

The Board proposed to declare a final dividend of

¥ 6.146 cents

per share for 2018





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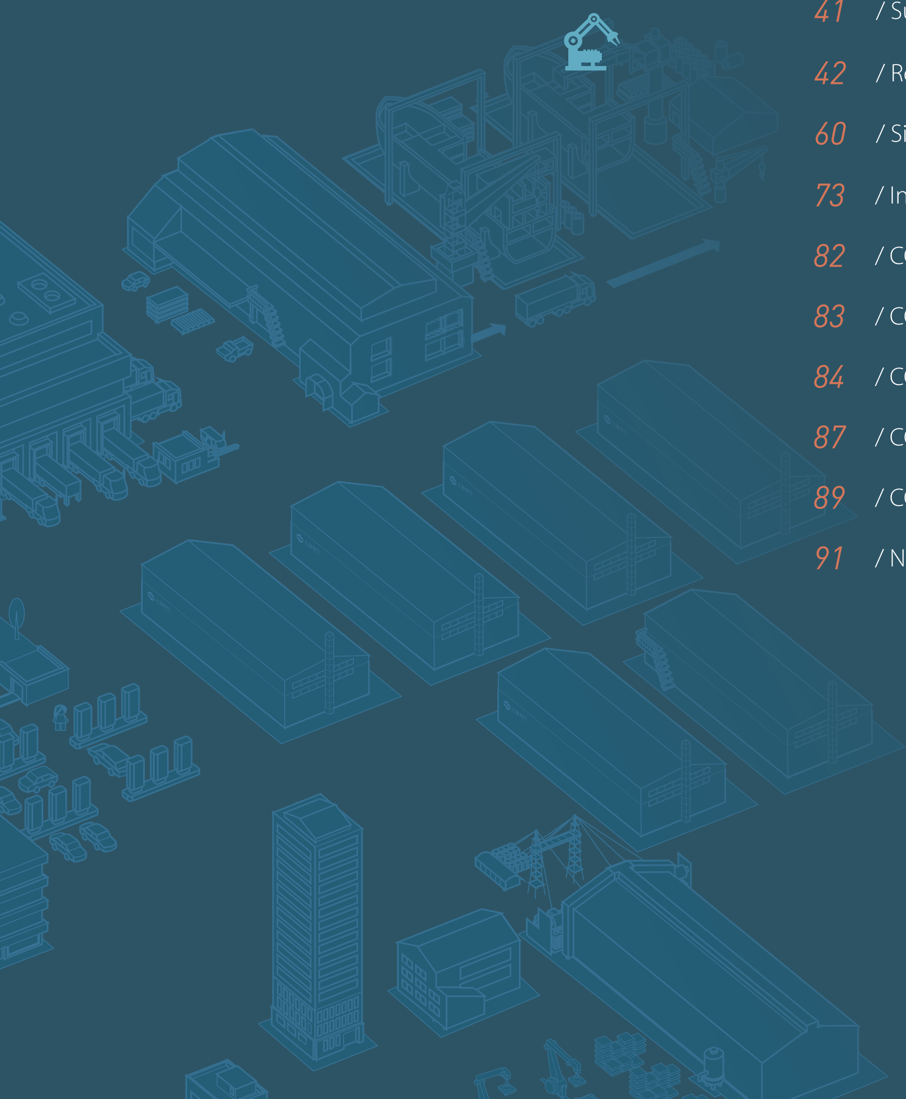

Chairman's Statement

CHAIRMAN OF THE BOARD AND CEO
Zheng Jianhua

In 2018, the global economy slowed down amid a complicated and tough environment. China's economy, despite facing downward pressure, has remained and will continue to remain in an important period of strategic opportunity for development for a long time to come, while its manufacturing sector will be evolving and transforming from traditional equipment manufacturing to intelligent manufacturing. In response to the new situatiom, environment and challenges, Shanghai Electric, following the "three steps forward" development strategy and on the theme of the "year of innovation" and the "year of implementation", strived to tackle key issues and bottlenecks in the development of the Group so as to drive the development of strategic business lines, deepen reform and speed up innovation. As a result, Shanghai Electric maintained a stable growth momentum. During the reporting period, the Group achieved revenue of RMB101,158 million, representing a year-on-year increase of 27.2%, which was attributable to a significant year-on-year increase in the revenue from various business segments resulting from the effective implementation of the strategies of the Group during the reporting period. During the reporting period, the gross profit ratio of the Group stood at 18.2%, representing a year-on-year decrease of 1.7 percentage points, primarily due to the adoption of the pricing strategy designed to further expand the market share of the elevator business and changes in the overall gross profit margin of the power plant engineering business. During the reporting period, the Group's net profit attributable to owners of the Company amounted to RMB2,980 million, representing a year-on-year increase of 13.4%. The earnings per share were RMB20.24 cents for 2018, representing a year-on-year increase of 8.1%. The return on net assets was 5.3%, remaining flat with 2017. A final dividend of RMB6.146 cents per share was proposed for 2018, representing approximately 30% of the net profit attributable to owners of the Company for 2018.

During the reporting period, the core technological strength of Shanghai Electric was further enhanced while its independent technological research and development projects have won a number of national awards. The two R&D projects on key technology for designing damping blades for steam turbines and its application (汽輪機系列化減振阻尼葉片設計關鍵技術及應用) and the application development and engineering of domestically-made amorphous strips in power systems (國產非晶帶材在電力系統中的應用開發及工程化) have respectively won the 2018 National Science and Technology Progress Awards (Second Class); the R&D projects on the development of 1000 MW ultra-supercritical second reheat steam turbine and boiler (1000MW級超超臨界二次再熱汽輪機及鍋爐研製) and the key technology for composite laser surface modification in energy field and its application (能場複合激光表面改性關鍵技術及應用) won first prizes of the 2018 China Machinery Industry Science and Technology Award; and the R&D projects on the development of million-kilowatt full-capacity feed pump for steam turbines (百萬千瓦等級全容量給水泵汽輪機系列化研製), the development of million-kilowatt nuclear power condensers (百萬核電凝汽器研製), the advanced manufacturing technology of high temperature gas-cooled reactor pressure vessel (高溫氣冷堆壓力容器先進製造技術), the main bearings for industrial robots and cycloidal gear reducers (工業機器人、擺綫輪減速器用主軸承), and the development of key materials (CB2/FB2) and their casting and forgings for 620℃ ultra supercritical steam turbines (620℃等級超超臨界汽輪機關鍵材料CB2/FB2及其鑄鍛件的開發) won third prizes of the 2018 China Machinery Industry Science and Technology Award.

During the reporting period, the Company obtained new orders in the amount of RMB130.71 billion, representing a year-on-year increase of 30.1%. In particular, new orders for new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment and modern services accounted for 16.4%, 17.1%, 34.4% and 32.1% of the total new orders, respectively. As at the end of the reporting period, our orders on hand amounted to RMB206.99 billion (with orders in the aggregate amount of RMB86.21 billion not yet coming into effect), orders for new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment and modern services accounted for 18.3%, 42.3%, 5.7% and 33.7% of the total orders on hand, respectively.

New Energy and Environmental Protection Equipment

Shanghai Electric is the only nuclear power equipment manufacturing conglomerate with a complete industry chain covering main and auxiliary equipment for nuclear and conventional islands and heavy forgings for nuclear power plants, while it maintains a leading market share in respect of nuclear island main equipment. During the reporting period, by implementing the technology development strategy of "mastering current-generation technologies, developing next-generation technologies and exploring next-next-generation technologies (掌握一代，研製一代，跟踪開發一代)", Shanghai Electric systematically proceeded with the production of nuclear island equipment for on-hand orders, and successively completed the deliveries of the reactor vessel internals for the world's first "Hualong One" reactor on unit 5 of the Fuqing nuclear power plant in Fujian and the reactor vessel internals of the overseas first "Hualong One" reactor on unit 2 of the Karachi nuclear power plant in Pakistan, further consolidating its technological leadership in the field of nuclear power products. During the reporting period, we secured the order for supplying core supports for the 600MW demonstration fast-neutron reactor and successfully obtained from the Institute of Applied Physics of the Chinese Academy of Sciences an order for the main vessel for test reactor of thorium molten salt reactor, laying a solid foundation for capturing the technological opportunities for the fourth generation of advanced nuclear reactor equipment. We are making active efforts to develop intelligent nuclear power equipment and innovate our business model, and are cultivating our innovative capabilities in design, equipment and service integration through setting up a technological R&D platform, so as to transform from an equipment vendor to a provider of "equipment integration + technical services". In addition, we strive to upgrade our production mode for nuclear power products from "traditional discrete manufacturing" to "digital high-end equipment manufacturing" through building a collaborative management platform for digital manufacturing. During the reporting period, we received new orders for nuclear island equipment of RMB0.98 billion, representing a year-on-year increase of 15.3%. Our orders on hand for nuclear island equipment by the end of the reporting period amounted to RMB11.68 billion, representing a year-on-year decrease of 9.2%.

For wind power equipment business, we endeavored to transform from a wind turbine equipment manufacturer to a wind power service provider for the whole life cycle (covering "wind resources –wind turbines – wind farms – power grids – environment"), and accelerated the development of our technological R&D capabilities by establishment of R&D centers in Beijing, Hangzhou of Zhejiang, Shantou of Guangdong and Denmark. During the reporting period, our offshore wind power equipment manufacturing base in Fujian, which is the largest of its kind and the most technologically advanced one in Asia, was officially put into operation, indicating that Shanghai Electric has possessed the production capability for 6 to 10MW large direct-drive wind turbines. We successfully completed the lifting and installation of the first 7MW offshore wind turbine in Sanchuan, Pinghai Bay, Fujian, which is the most powerful offshore wind turbine in commercial operation in China. Shanghai Electric's internally developed "Feng Yun" system, a remote management platform based on cloud computing and big data, has gained data access to more than 100 wind farms. We launched the "Feng Yun" system and the IWIND data center built through years of data accumulation in 2018 dedicating to provide customers with digital solutions for the whole life cycle of a wind farm by using digital technology. During the reporting period, we received new orders for wind power equipment of RMB13.34 billion, representing a year-on-year increase of 18.3%. Our orders on hand for wind power equipment by the end of the reporting period amounted to RMB20.84 billion, representing a year-on-year increase of 37.4%.

During the reporting period, our environmental protection business had preliminarily set up a comprehensive industry chain covering domains of "engineering + design, technology + product, operation + service" with a focus on areas such as power station environment protection, solid waste treatment and water treatment. During the reporting period, our smart energy demonstration project system integrating "wind and solar power generation, energy storage and EV charging" in Sanxing Town of Chongming, Shanghai completed commissioning, delivery and trial production, providing users with a system solution for smart microgrid. In addition, our distributed water treatment business has swiftly made inroads into the market, winning bids for the Tian'an Town water treatment project in Dongfang city of Hainan province, the Hele Town sewage treatment plant project in Wanning city of Hainan province and the Jiangbian Township and Donghe Town sewage treatment projects in Dongfang city of Hainan province; our solid waste disposal business has been developing in an orderly manner, and has established a presence in the high-end market of hazardous waste treatment in the Yangtze River Delta region through the acquisition of 100% equity interests in Wujiang Taihu Industrial Solid Waste Treatment Company Limited (吳江市太湖工業廢弃物處理有限公司) and Ningbo Hi-Firm Environmental Protection Company Limited (寧波海鋒環保有限公司); and our domestic waste incineration projects in Nantong of Jiangsu Province, Dandong of Liaoning Province and other regions were well underway. During the reporting period, we acquired new orders for environmental protection equipment of RMB6.68 billion, representing a year-on-year increase of 42.1%. At the end of the reporting period, our orders on hand for environmental protection equipment amounted to RMB5.03 billion, representing a year-on-year increase of 18.6%. Both the acquired new orders and orders on hand hit new record highs.

During the reporting period, our new energy and environmental protection equipment segment recorded revenue of RMB13.9 billion, representing a year-on-year increase of 25.9%, mainly due to the significant year-on-year increase in revenue from the rapidly expanding environmental protection business. During the reporting period, the gross profit margin of the segment reached 16.3%, representing a year-on-year increase of 1.7 percentage points. Benefiting from the competitive edge of the offshore wind turbines of the Group, the gross profit margin of the wind power equipment business of the Group increased by 4.6 percentage points to 16.3% during the reporting period.

High Efficiency and Clean Energy Equipment

During the reporting period, facing a new round restrictive of policies on reducing coal-fired power generation and declining demand and overcapacity in the domestic thermal power market, we vigorously pushed forward institutional innovation, adopted joint marketing and other means to drive the transformation and upgrading of thermal power equipment manufacturing business and provided system solutions for users inside and outside the PRC. During the reporting period, we won the bid for supplying major equipment for the Chagannaoer (查乾淖爾) project of 2 sets of660MW ultra-supercritical units of Hebei Construction & Investment Group Co., Ltd., marking our first supply contract for a lignite furnace project integrating tower furnace and fan mill in China. Following the "Belt & Road" initiative of the state, we pushed ahead with our global development strategy, boosted product technology and service standards and enhanced our capability to manage overseas projects, thereby obtaining more orders in overseas market and partially offsetting the impact of the declining demand in domestic coal-fired power market. During the reporting period, the intelligent development centre of Shanghai Electric Power Generation Group was established, which aimed to pool our advantageous resources to build an intelligent industrial platform for better satisfying the needs of customers. During the reporting period, we acquired new orders for coal-fired power equipment of RMB5.67 billion. At the end of the reporting period, our orders on hand for coal-fired power equipment amounted to RMB58.7 billion, representing a year-on-year decrease of 28.6%.

In the field of gas turbines, we are committed to becoming a provider of integrated services covering the whole life cycle of gas turbines. In line with our "Four Globalization Strategies" of globalized R&D platform, globalized manufacturing base, globalized sales network and globalized service team, we continued to work with Ansaldo through in-depth cooperation in aspects such as market expansion, technology transfer and technical collaboration. During the reporting period, Shanghai Electric won the bids for two sets of 100MW generating units for the gas-fired cogeneration power plant project of each of Chaozhou Shenneng Ganlu Thermal Power Co., Ltd. (潮州深能甘露) and Chaozhou Shenneng Fengquan Thermal Power Co., Ltd. (潮州深能鳳泉). Besides, we actively expanded to the gas turbine maintenance market, and secured orders in relation to the long-term support services for 12 gas turbines by the end of 2018. During the reporting period, we acquired new orders for gas turbines of RMB0.90 billion, representing a year-on-year decrease of 60.4%. At the end of the reporting period, our orders on hand for gas turbines amounted to RMB7.40 billion, representing a year-on-year decrease of 18.8%.

During the reporting period, we focused on developing electricity, industry and engineering markets for our power transmission and distribution equipment business, cultivating our engineering and service capabilities and actively extending towards both upper and lower ends of the industry chain. We continued to optimize affiliated product lines for new energy, and have industrialized the three-in-one product of wind power converters, variable pitch system and control system. In 2018, Wujiang Transformer Co., Ltd (吳江變壓器有限公司) successfully developed 1000kV and one-million kVA UHV transformers, indicating that the R&D, production and technology capabilities of Shanghai Electric in respect of transformers were gradually reaching industry-leading levels in China. During the reporting period, we acquired new orders for power transmission and distribution equipment of RMB11.02 billion, representing a year-on-year increase of 20.7%.

During the reporting period, our high efficiency and clean energy equipment segment recorded revenue of RMB34.2 billion, representing a year-on-year increase of 30.8%, which was mainly attributable to the significant increase in revenue from coal-fired power generation equipment business due to enhancement of customer service and speeding up of equipment delivery to cope of state thermal power policies during the reporting period. Moreover, the revenue from power transmission and distribution equipment also rose sharply, benefiting from the proactive market expansion strategy. During the reporting period, the gross profit margin of the segment reached 14.5%, representing a year-on-year decrease of 0.6 percentage point. The gross profit margin for coal-fired power generation equipment decreased slightly during the reporting period, which was mainly attributable to the increased procurement costs as a result of rising prices of bulk materials

Industrial Equipment

During the reporting period, due to the impact of factors such as prominent differentiation of real estate market, rising prices of raw materials and overcapacity, China's elevator industry experienced increasingly intense competition in terms of price, quality, delivery time and services. 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 during the reporting period. In particular, SMEC continued to work closely with core strategic partners such as Evergrande, China Overseas, Greenland, Country Garden, Longfor and Forte, and increased its effort in tracking core and major projects in the second-tier and third-tier cities. SMEC continued to develop and expand its services. Upholding the management philosophy of "service-based marketing", SMEC took the retrofit of obsolete elevators as the key to create a new growth area for its services, and promoted the application of the Internet of Things in its engineering services to increase the informatization of installation project management and sampling inspection on maintenance quality. The major projects undertaken by SMEC during the reporting period included the elevator retrofit and renovation projects for the grand auditorium and key office buildings of the Great Hall of the People, the public service center project in Xiongan New Area, the JD headquarters building phase II in Yizhuang, Beijing, the vertical elevator and escalator project for Shanghai Metro Line 14, etc. During the reporting period, SMEC's revenue generated from services such as installation, repairs and maintenance exceeded RMB6 billion, representing 30% of its total revenue.

During the reporting period, in the fields of intelligent manufacturing and smart cities, we promoted technological R&D and the application of R&D results, with a focus on such areas as intelligent manufacturing, intelligent transportation and municipal automation, and built our core competitive edges in the automation industry according to the guiding principle of "building on products, pursuing technology integration, and delivering system solutions". During the reporting period, Broetje-Automation won the bid for the project of automatic drilling assembly tooling for C919 aircraft flaps (C919飛機襟翼自動制孔裝配工裝項目), marking its first order in the Chinese market since it was acquired by Shanghai Electric. The first intelligent electronic rail transit, jointly developed by us and the United States-based Transformational Transportation Technologies Inc., has passed acceptance inspection at the Ligang experimental area in Shanghai; and a joint venture named Shanghai Electric Group Intelligent Transportation Technology Co., Ltd. (上海電氣集團智能交通科技有限公司) was established to provide customers with medium-capacity smart transportation solutions based on intelligent electronic rail technology. Shanghai Electric Automation R&D Institute Co., Ltd. (上海電氣自動化設計研究所有限公司) won the bid for the integrated monitoring system of Shanghai Rail Transit Line 18 Phase I Project, achieving a breakthrough in the field of integrated monitoring solutions, and marking our successful transformation from providing system integration for small projects to delivering system solutions for large projects.

During the reporting period, our industrial equipment segment recorded revenue of RMB37.5 billion, representing a year-on-year increase of 11.6%, which was mainly attributable to the growth of the sales of elevators and electric motors and spare parts to varied extent. For the reporting period, the gross profit margin of the segment was 18.6%, representing a year-on-year decrease of 1.7 percentage points, which was mainly attributable to the adoption of pricing strategy to further increase market shares of elevator business.

Modern Services

During the reporting period, we continued to develop our power plant engineering business at a steady pace and actively explored overseas markets. We targeted at the markets in over 50 countries and regions covered by the "Belt & Road" initiative for the development of our engineering business, and set up new branch offices/subsidiaries in Pakistan, Dubai, Panama, Serbia and South Africa. We also planned to extend our overseas sales network into Turkey, Poland, Australia and Japan, and enhance the synergistic effects of the sales outlets, order taking and risk prevention of overseas projects of our various business segments through the joint conference system for overseas projects. In addition, we proactively developed new energy and distributed energy markets and increased project investment and financing so as to boost our market share. During the reporting period, Shanghai Electric has undertaken the EPC Contract for Dubai Electricity and Water Authority(DEWA) 950 MW Phase IV Thermo-solar and Photovoltaic Hybrid Power Generation Project, of which the 700 MW thermo-solar power plant is currently the world's largest, most advanced power plant; and we entered into a contract with Inner Mongolia Huaxia Zhujiaping Electric Power Co., Ltd.(內蒙古華厦朱家坪電力有限公司) for Zhujiaping 660 MW Ultra-Supercritical Power Plant Project Phase I in Inner Mongolia, which is our first EPC contract for a pithead power plant project. During the reporting period, we acquired new orders for power plant projects of RMB36.35 billion, representing a year-on-year increase of 176%. At the end of the reporting period, our orders on hand for power plant projects amounted to RMB60.95 billion, representing a year-on-year decrease of 1.1%. During the reporting period, Shanghai Electric Finance Group (上海電氣金融集團) accelerated the development at three levels of "managing treasury, promoting product sales and project contracting, and supporting the development of new businesses and introduction of new technologies", and created a relatively sound business portfolio and evolved towards a comprehensive financial service provider with presence in both domestic and overseas markets, initiated the Shaanxi Green Energy Industrial Investment Fund (陝西綠能產業投資基金), the Lianchuang Yongjun Equity Investment Fund (聯創永均股權投資基金) and the Qingdian Investment Fund (青典投資基金), each answering to the purpose of distributed energy business, entry into the field of medical equipment and breakthroughs in overseas high-end manufacturing technology of Shanghai Electric, and these Funds have enabled the commencement of a batch of quality projects throughout the reporting period. With continuous expansion of the financing pipelines overseas, Shanghai Electric has achieved the intention of cooperation in a series of project development in South America, the Caribbean, the United Kingdom and Spain. In addition, Shanghai Electric continued to offer financial means for the Group to reduce financial expenses and strengthen domestic and overseas fund management, delivering diversified and customized financial solutions to support the Group's main business in "going global", and providing funding for the equipment sales and project contracting of our energy and environmental protection business by way of fueling development through investments, forming the core competitiveness of Shanghai Electric with regard to market pioneering.

During the reporting period, our modern services segment recorded revenue of RMB17 billion, representing a year-on-year increase of 24.5%, which was mainly attributable to the significant increase in revenue from various projects in progress for power plant, power transmission and distribution and service business during the reporting period. During the reporting period, the gross profit margin of the segment was 17.1%, representing a year-on-year decrease of 6.8 percentage points, which was mainly due to change in gross profit margin structure of our power plant engineering business.

Looking forward, we will further emancipate our minds and stick to the market-oriented, specialized and global development strategy. While focusing on advantageous businesses, optimizing existing businesses and vigorously developing emerging businesses, we will promote technological innovation, deepen institutional reform and accelerate industrial restructuring. Through these efforts, we will be able to seize the opportunities in the new round of industrial revolution and build ourselves into a top-ranked modern multinational conglomerate with global presence at the soonest. We will lead a new round of leap-forward development of Shanghai Electric to make it a respectable enterprise with strong competitiveness and profitability and develop it into a global top-notch new aircraft carrier for high-end equipment.

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

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

Zheng Jianhua
Chairman
Shanghai, the PRC,
29 March 2019

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 Ou (Appointed on 18 September 2018)
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 Journal, Shanghai Securities News, Securities Times
The Company's annual reports available at	Office of 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

Class 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 domestic auditors appointed by the Company	11/F PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai, PRC
Name of international auditors appointed by the Company:	PricewaterhouseCoopers
Business address of international auditors appointed by the Company:	20/F, Prince Building, Central, Hong Kong
Legal advisers appointed by the Company as to PRC laws:	Grandall Law Firm (Shanghai)
Legal advisers appointed by the Company as to Hong Kong laws and U.S. laws:	Clifford Chance
Legal advisers appointed by the Company as to Japanese laws:	Anderson Mori & Tomotsune

Five-year Financial Summary

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

Unit: '000,000 Currency: RMB

	2014	2015 (Restated)	2016 (Restated)	2017	2018
Revenue and Profit					
Revenue	78,486	87,441	88,507	79,544	**101,158**
Profit before tax	5,753	6,484	5,925	5,365	**6,008**
Tax	(934)	(1,434)	(1,283)	(522)	**(677)**
Profit for the year	4,819	5,050	4,642	4,843	**5,331**
Attributable to:					
Owners of the Company	2,727	2,314	2,355	2,627	**2,980**
Non-controlling interests	2,092	2,736	2,287	2,216	**2,351**
Dividend	753			1,354	**905**
Earnings per share attributable to ordinary equity holders of the Company					
Basic Profit for the year (cents)	20.74	18.04	17.14	18.72	**20.24**
Assets and Liabilities					
Non-current assets	34,248	40,285	48,927	54,989	**66,794**
Current assets	113,314	135,943	137,674	144,357	**151,728**
Current liabilities	(94,340)	(102,985)	(106,375)	(111,320)	**(119,623)**
Net current assets	18,974	32,958	31,299	33,037	**32,105**
Total assets less current liabilities	53,222	73,243	80,226	88,026	**98,899**
Non-current liabilities	(4,880)	(16,219)	(17,807)	(17,304)	**(25,262)**
Net assets	48,342	57,024	62,419	70,722	**73,637**
Equity attributable to owners of the Company	36,780	42,450	47,900	55,537	**57,290**
Non-controlling interests	11,562	14,574	14,519	15,185	**16,347**

Comparative figures for the years 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	2018	2017	Year-on-year increase/decrease (%)
Revenue	101,157,525	79,543,794	27.17
Profit before tax	6,008,116	5,365,249	11.98
Net profit attributable to owners of the Company	2,980,460	2,626,668	13.47
Net cash flows generated from operating activities	949,304	(7,525,017)	N/A
	At the end of 2018	At the end of 2017	Year-on-year increase/decrease (%)
Total assets	218,521,865	199,345,759	9.62
Equity attributable to owners of the Company	57,290,196	55,537,083	3.16
Key financial indicators	2018	2017	Year-on-year increase/decrease (%)
Basic earnings per share (RMB/share)	0.20	0.19	5.26
Diluted earnings per share (RMB/share)	0.20	0.19	5.26
Weighted average return on net assets (%)	5.26	5.26	0.00
Net cash flows per share generated from operating activities (RMB/share)	0.06	(0.54)	N/A
	At the end of 2018	At the end of 2017	Year-on-year increase/decrease (%)
Net assets per share attributable to shareholders of the Company (RMB/share)	3.89	3.56	9.27

Note: For details about the annual report prepared under the PRC GAAP, please refer to the website designated by the China Securities Regulatory Commission at http://www.sse.com.cn.

Differences between the PRC and the international accounting standards

Differences in net profit and net assets represented in the financial reports prepared under the HKFRSs and the PRC GAAP.

Unit: '000 Currency: RMB

	Net profit attributable to owners of the Company		Net assets attributable to owners of the Company	
	For the year ended 31 December 2018	For the year ended 31 December 2017	31 December 2018	1 January 2018
Amounts under the PRC GAAP	3,016,525	2,659,576	57,290,196	55,537,083
Adjustments under the HKFRSs				
Employee reward and welfare fund	(45,053)	(50,055)		
Work safety expenses	8,988	17,147		
Amounts under the HKFRSs	2,980,460	2,626,668	57,290,196	55,537,083

Share Capital Structure

As at 31 December 2018	Number of shares	Approximate percentage of issued share capital
A shares	11,752,275,459	79.81%
H shares	2,972,912,000	20.19%
Total	14,725,187,459	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 2018 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

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 2018 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 2018, 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	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	58	18 September 2018	17 September 2021					124.03
Huang Ou	Executive Director and President	Male	47	18 September 2018	17 September 2021					47.43
Zhu Zhaokai	Executive Director	Male	50	18 September 2018	17 September 2021					19.76
Zhu Bin	Executive Director	Male	57	18 September 2018	17 September 2021					70.97
Yao Minfang	Non-executive Director	Female	51	18 September 2018	17 September 2021					
Li An	Non-executive Director	Female	57	18 September 2018	17 September 2021					
Kan Shun Ming	Independent Non-executive Director	Male	61	18 September 2018	17 September 2021					25.00
Chu Junhao	Independent Non-executive Director	Male	73	18 September 2018	17 September 2021					25.00
Xi Juntong	Independent Non-executive Director	Male	66	18 September 2018	17 September 2021					8.33
Zhou Guoxiong	Chairman of the Supervisory Committee	Male	61	18 September 2018	17 September 2021					
Hua Xingsheng	Vice Chairman of the Supervisory Committee	Male	58	18 September 2018	17 September 2021					66.35
Han Quanzhi	Supervisor	Male	54	18 September 2018	17 September 2021					
Zhu Xi	Supervisor (employee representative)	Female	54	18 September 2018	17 September 2021					28.05
Li Bin	Supervisor (employee representative)	Male	58	18 September 2018	21 February 2019					
Lv Yachen	Vice president	Male	58	18 September 2018	17 September 2021					76.46
Dong Jianhua	Vice president	Male	53	18 September 2018	17 September 2021					82.92
Zhang Ke	Vice president	Male	58	18 September 2018	17 September 2021					76.46
Chen Ganjin	Vice president	Male	50	18 September 2018	17 September 2021					84.20
Gu Zhiqiang	Vice president	Male	54	18 September 2018	17 September 2021					38.48

Name	Position	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)
Jin Xiaolong	Vice president	Male	51	18 September 2018	17 September 2021					34.45
Hu Kang	Chie Financial Officer	Male	55	18 September 2018	17 September 2021					129.55
Tong Liping	Chief Legal Officer	Female	47	18 September 2018	17 September 2021					144.66
Fu Rong	Secretary to the Board	Female	48	18 September 2018	17 September 2021					108.18
Zhang Mingjie	Chief Investment Officer	Male	55	18 September 2018	17 September 2021					10.58
Li Chung Kwong Andrew	Company Secretary	Male	59	18 September 2018	17 September 2021					110
Zhu Kelin	Vice Chairman of the Board (resigned)	Male	56	26 February 2014	17 September 2018					
Li Jianjin	Non-executive Director (resigned)	Male	60	28 June 2016	17 September 2018					
Lui Sun Wing	Independent Non-executive Director (resigned)	Male	68	26 February 2014	17 September 2018					18.75
Zhou Changsheng	Supervisor (resigned)	Male	53	26 February 2014	17 September 2018					
Zheng Weijian	Supervisor (resigned)	Male	57	26 February 2014	17 September 2018					
Li Jing	Chief Information Officer (resigned)	Female	51	26 February 2014	28 March 2018					86.97
Total	/	/	/	/	/				/	1,416.58

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 to 18 September 2018, when the shareholders of the Company approve the composition of the new board of directors and supervisory committee . At the same time, the term of office of the special committees of the fourth-term board of directors and the senior management personnel of the Company has also been postponed accordingly.

Major work experience

Zheng Jianhua

Mr. Zheng currently serves as the secretary of CPC Party Committee, the Chairman of the Board and the chief executive officer of the Company. He is also the chairman of the board of directors of Shanghai Electric (Group) Corporation. Mr. Zheng Jianhua has over 30 years of experience in equipment manufacturing business. Mr. Zheng was formerly the president of Shanghai Turbine Generator Co., Ltd., the general manager of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd., the president of Shanghai Electric Power Generation Group, the chairman of the board of directors of Shanghai Electric Power Generation Equipment Co., Ltd., the vice president of Shanghai Electric (Group) Corporation, an executive director and the president of Shanghai Electric Group Company Limited, and the 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.

Huang Ou

Mr. Huang currently serves as a Director, the president and the deputy secretary of CPC Party Committee of the Company. Mr. Huang has extensive experience in the power generation equipment manufacturing industry. He formerly served as the president of Shanghai Turbine Co., Ltd. from 2004 to 2006, the vice president of Shanghai Electric Power Generation Equipment Co., Ltd. from 2007 to 2009, the executive vice president of Shanghai Electric Power Generation Group from 2006 to 2013, the chief technology officer of Shanghai Electric Group Company Limited from 2011 to 2015, the vice president of Shanghai Electric Group Company Limited from 2015 to 2016 and the deputy director of Shanghai Municipal Commission of Economy and Informatization from 2016 to 2018. Mr. Huang Ou graduated from Shanghai Jiao Tong University with a master's degree in engineering and is a senior engineer of professorial level.

Zhu Zhaokai

Mr. Zhu currently serves as a Director, the deputy secretary of CPC Party Committee and head of the human resources department of the Company. Mr. Zhu Zhaokai has extensive experience in the power generation equipment manufacturing industry. He served as the deputy secretary of CPC Party Committee and secretary of Commission for Discipline Inspection of the turbine factory of Shanghai Electric Power Generation Equipment Co., Ltd. and Shanghai Turbine Works Co., Ltd. from 2001 to 2009, and the secretary of CPC Party Committee and an executive director of the turbine factory of Shanghai Electric Power Generation Equipment Co., Ltd. and Shanghai Turbine Works Co., Ltd. from 2009 to 2011. He has served as the secretary of CPC Party Committee of Shanghai Electric Power Generation Group since 2013. Mr. Zhu graduated from Hefei University of Technology with a bachelor’s degree in engineering and from Shanghai Jiao Tong University with a master’s degree in business administration. He is a senior economist.

Zhu Bin

Mr. Zhu currently serves as a Director and the chairman of labor union of the Company, the chairman of Shanghai Mechanical and Electrical Union, and a director of Shanghai Electric (Group) Corporation. Mr. Zhu has extensive experience in the power generation equipment manufacturing industry. Since he joined the group in 1983, Mr. Zhu successively served as the assistant to president and the vice president of Shanghai Turbine Works Co., Ltd., an executive director, the general manager and the deputy secretary of CPC Party Committee of Shanghai Power Station Auxiliary Equipment Works., Ltd., the vice chairman, the president and the deputy secretary of CPC Party Committee of Shanghai Power Equipment Co., Ltd., the executive vice president of Shanghai Electric Power Generation Group, the vice chairman and president of Shanghai Electric Power Generation Equipment Co., Ltd., and the assistant to president and chief operation officer of Shanghai Electric Group Company Limited. Mr. Zhu graduated from Xi'an Jiao Tong University with a master's degree in business administration. He is a senior engineer.

Yao Minfang

Ms. Yao currently serves as a non-executive Director of the Company. Ms. Yao was the principal and then 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, a deputy chief engineer and the director of the Technical Innovation Center of Shenergy (Group) Co., Ltd. from September 2006. Ms. Yao graduated from the dynamics department of the University of Shanghai for Science and Technology with a master's degree and is a senior engineer of professorial level.

Li An

Ms. Li currently serves as a non-executive Director of the Company, the vice president and a director of Shanghai Guosheng Group Company Limited (上海國盛（集團）有限公司), and a director of each of Arcplus Group PLC (華東建築集團股份有限公司), Shanghai Tunnel Engineering Co. Ltd. (上海隧道工程股份有限公司) and Shanghai Pharmaceuticals Holding Co., Ltd.. Ms. Li served as the director of the Property Rights Division and the Center of Property Rights of Shanghai Municipal State owned Assets Supervision and Administration Commission from November 2009 to August 2014. She was the vice president of Shanghai Guosheng Group Company Limited from August 2014 to January 2017, and has served as the vice president and director of Shanghai Guosheng Group Company Limited since January 2017. Ms. Li holds a bachelor's degree in engineering and is an engineer.

Kan Shun Ming

Mr. Kan currently serves as 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

Mr. Chu is an academician of the Chinese Academy of Sciences. He currently serves as an independent non-executive Director of the Company, a researcher of Shanghai Institute of Technical Physics, the deputy director of the Academic Committee of East China Normal University, the director of Shanghai Solar Cells Research and Development Center ,and an independent director of Shanghai Cambridge Technology Co., Ltd. (上海劍橋科技股份有限公司), Hengtong Optic-Electric Co,.Ltd. (江蘇亨通光電股份有限公司) and Shanghai Tunnel Engineering Co. Ltd. (上海隧道工程股份有限公司). 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.

Xi Juntong

Mr. Xi is a professor of Mechanical Manufacture and Automation and the State Key Laboratory of Mechanical System and Vibration and a doctoral supervisor of Shanghai Jiao Tong University. He currently serves as an independent non-executive Director of the Company, the acting dean of Shanghai Intelligent Manufacturing Institute (上海智能製造研究院) and the head of Shanghai Key Laboratory of Network-based Manufacturing and Enterprise Informatization(上海市網絡化製造與企業信息化重點實驗室). Mr. Xi is primarily engaged in research in the fields of digital manufacturing and intelligent manufacturing technologies. He was honored with 6 awards including the second prize of the National Science and Technology Progress Award and the scientific and technological progress and technological invention awards of Shanghai. His major concurrent academic posts mainly include deputy director of the Special Committee of Manufacturing Automation of Chinese Mechanical Engineering Society, a member of the Special Committee of Additive Manufacturing of Chinese Mechanical Engineering Society, an executive member of China Intelligent Manufacturing Industry Innovation Alliance (中國智能製造產業技術創新聯盟), the vice president of Shanghai Mechanical Engineering Society (上海機械工程學會), and the secretary general of Shanghai Intelligent Manufacturing Industry Innovation Alliance (上海智能製造產業技術創新聯盟).

Zhou Guoxiong

Mr. Zhou currently serves as the chairman of the supervisory committee of the Company and the chairman of the supervisory committee of Shanghai Tunnel Engineering Co., Ltd. (上海隧道工程股份有限公司). Before joining the Company, Mr. Zhou served as member of the standing committee under Shanghai Huangpu District Party Committee, head of Shanghai Public Security Bureau Huangpu Branch, deputy secretary of the party committee and deputy director general of Shanghai Public Security Bureau, secretary of the Party Committee of Shanghai Putuo District, party secretary of Working Committee of Economy and Informatisation of Shanghai Municipality (上海市經濟和信息化工作委員會), chairman of the supervisory committee of Shanghai Urban Construction (Group) Co., Ltd. (上海城建（集團）公司) and chairman of the supervisory committee of Shanghai Electric (Group) Corporation. Mr. Zhou holds a doctorate degree in management and is a distinguished professor, a researcher and a master's supervisor.

Hua Xingsheng

Mr. Hua currently serves as the deputy chairman of the supervisory committee of the Company and the secretary of the commission for discipline inspection of the Company. Mr. Hua has extensive experience in automotive industry. He has served as the secretary of Youth League Committee of SAIC Motor, deputy head of SAIC Forging Plant (上海汽車鍛造總廠), head of the president office of SAIC Motor, secretary of the party committee and deputy general manager of SAIC Sales Co., Ltd. (上海汽車工業銷售總公司), chairman of SAIC Materials Co., Ltd. (上海汽車工業物資公司), secretary of the party committee of Shanghai Huizhong Automobile Manufacturing Co., Ltd., propaganda department manager of the party committee of SAIC Motor and secretary of the commission for discipline inspection and deputy chairman of the supervisory committee of Shanghai Electric (Group) Corporation. Mr. Hua has a master's degree in management engineering and an EMBA and is a senior economist and a senior business operator (高級經營師).

Han Quanzhi

Mr. Han currently serves as a supervisor of the Company. He has successively served as a salesman and chief salesman of engineering and construction department of Shanghai Hongqiao Economic & Technological Development Zone United Development Co., Ltd., a deputy manager, the assistant to general manager, deputy general manager, deputy director and director of general office, director of foreign affairs office, deputy general manager of the project management department of the real estate branch and a member of CPC Party Committee and deputy general manager of Shanghai Land Minhong (Group) Co., Ltd. Mr. Han graduated from the Department of Architectural Engineering of Shanghai Institute of Urban Construction, majoring in industrial and civilian construction. Mr. Han is an engineer.

Zhu Xi

Ms. Zhu currently serves as an employee representative of the supervisory committee, the head of the internal audit department and the director of the supervisory committee office of the Company. Ms. Zhu served as the deputy head and then head of assets finance department of Shanghai Electric Assets Management Company Limited, the deputy head of financial budget department, the director of audit office and the director of the supervisory committee office of Shanghai Electric (Group) Corporation, the head of assets finance department of the Company. Meanwhile, she also concurrently serves as a director of Shanghai Mechanical and Electrical Industry Co., Ltd.. Ms. Zhu obtained an EMBA degree from Shanghai National Accounting Institute and Arizona State University, United States of America. Ms. Zhu is a senior accountant.

Lv Yachen

Mr. Lv is currently a vice president of the Company. He formerly served as the deputy chief engineer and deputy general manager of China First Heavy Industries, the chairman, general manager and deputy secretary of CPC Party Committee of Shanghai Heavy Machinery Plant Co., Ltd., the president and deputy secretary of CPC Party Committee of Shanghai Electric Heavy Industry Group, and the vice president of Shanghai Electric (Group) Corporation. Mr. Lv obtained his PhD degree in engineering science from Yanshan University. Mr. Lv is a senior engineer of professorial level.

Dong Jianhua

Mr. Dong is currently a vice president of the Company, the chairman of the board of directors of Shanghai Highly (Group) Co., Ltd., and a director of Shanghai Lingang Holdings Limited. He was formerly the vice president and chief financial officer of Shanghai Electric (Group) Corporation and chairman of the supervisory committee of the Company. 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.

Zhang Ke

Mr. Zhang is currently a vice president of the Company. He 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

Mr. Chen is currently a vice president of the Company. He has extensive experience in corporate management and was formerly the secretary of CPC Party Committee and chairman of Shanghai Boiler Works, Ltd., the general manager of Shanghai Diesel Engine Co., Ltd., the secretary of CPC Party Committee and general manager 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 operation officer of Shanghai Electric Group Company Limited, and the secretary of CPC Party Committee and general manager of Shanghai Zhangjiang (Group) Company Limited. Mr. Chen Ganjin 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.

Gu Zhiqiang

Mr. Gu is currently a vice president of the Company, the president and deputy secretary of CPC Party Committee of Shanghai Electric Environmental Protection Group, an executive director, head and deputy secretary of CPC Party Committee of Shanghai Institute of Mechanical & Electrical Engineering Co., Ltd. He served as the assistant to the general manager and deputy general manager of SEC Power Generation Environment Protection Engineering Co., Ltd., representative of Shanghai Electric (Group) Corporation in Europe, head of the environmental protection department of Shanghai Electric Group Company Limited, the chairman and general manager of Shanghai Electric (Anhui) Investment Co., Ltd. Mr. Gu graduated from Shanghai Jiao Tong University with a bachelor's degree in engineering and obtained an EMBA degree from Shanghai National Accounting Institute and Arizona State University, United States of America. Mr. Gu is a senior engineer.

Jin Xiaolong

Mr. Jin is currently a vice president of the Company, and an executive director and secretary of CPC Party Committee of Shanghai Electric Wind Power Group. He served as the operation manager of Maxon Combustion Equipment (Shanghai) Co., Ltd (麥克森燃燒設備（上海）有限公司), the secretary of CPC Party Committee and deputy general manager of Shanghai Faiverley Transport Co., Ltd., the secretary of CPC Party Committee and deputy general manager of Lingang Factory of Shanghai Electric Power Generation, the vice president of Shanghai Electric Power Generation Group, an executive director and the general manager of Shanghai Electric Wind Power Equipment Co., Ltd, the vice chairman and general manager of Shanghai Electric Wind Energy Co., Ltd. and Siemens Wind Power Turbines (Shanghai) Co., Ltd. Mr. Jin Xiaolong graduated from Harbin Institute of Technology with a bachelor's degree in engineering and obtained a master's degree in business administration from Webster University. Mr. Jin is a senior economist.

Hu Kang

Mr. Hu is currently the chief financial officer of the Company, the chairman of the board of supervisors of Shanghai Mechanical & Electrical Industry Co., Ltd., the president and deputy secretary of the CPC Party Committee of Shanghai Electric Finance Group, and the chairman of the board of Shanghai Electric Enterprise Service Co., Ltd. (上海電氣集團企業服務有限公司). Mr. Hu 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 chairman of the board and general manager of Shanghai Shangling Electric Company Ltd., the general manager of the second management department of Shanghai Electric Assets Management Company Limited, a director and the general manager of Shanghai Prime Machinery Company Limited, and the assistant to the president, head of the internal audit department, head of the assets finance department and chief financial officer of the Company. Mr. Hu obtained an EMBA degree from Shanghai Jiao Tong University and a master's degree in professional accounting from the Chinese University of Hong Kong. He is a senior accountant and senior economist.

Tong Liping

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

Fu Rong

Ms. Fu is currently the secretary to the Board, and 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 the human resources department, head of the investor relations department and head of the general office of the Company. Ms. Fu Rong holds a master's degree in business administration and is an economist.

Zhang Mingjie

Mr. Zhang is currently the chief investment officer of the Company, the director of industry development department and the dean of the central research institute of the Company, the vice chairman of the board of directors of Shanghai Highly (Group) Co., Ltd. and a director of Shanghai Prime Machinery Company Limited. He successively served as the deputy director, executive deputy director and acting director of Shanghai Voltage Regulator Factory (上海電壓調整器廠), deputy chief engineer, the assistant to the general manager and deputy general manager of Shanghai Electric Co., Ltd. (上海電器股份有限公司), the deputy general manager of Shanghai Electric Industry Co., Ltd. (上海電器工業有限公司), the director and deputy secretary of CPC Party Committee of Shanghai Huatong Switch Factory (上海華通開關廠), the secretary of CPC Party Committee and deputy general manager of Shanghai Power Transmission and Distribution Co., Ltd. (上海輸配電股份有限公司), and the director of wind power department of Shanghai Electric (Group) Corporation. Mr. Zhang Mingjie graduated from Shanghai Jiao Tong University, and has a bachelor's degree in engineering and a master's degree in business administration and is a senior engineer of professorial level.

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 also served 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 of directors	2017-8	to present
Zhu Bin	Shanghai Electric (Group) Corporation	Director	2018-9	to present
Yao Minfang	Shenergy Group Company Limited	Manager of the Investment Management 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
Li An	Shanghai Guosheng Group Company Limited (上海國盛（集團）有限公司).	Vice President	2014-8	to present
	Shanghai Guosheng Group Company Limited (上海國盛（集團）有限公司).	Director	2017-1	to present

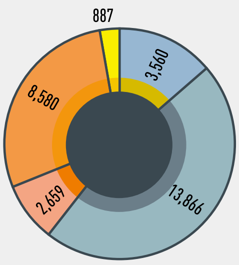
Employments with other companies or organizations

Name	Name of company/organization	Position held	Term of office commencing on	Term of office ending on
Li An	Arcplus Group Plc	Director	2015-9-1	to present
Li An	Shanghai Tunnel Engineering Co. Ltd. (上海隧道工程股份有限公司)	Director	2018-12-28	2021-12-27
Li An	Shanghai Pharmaceuticals Holding Co., Ltd	Director	2016-6-28	2019-6-27
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	2014-4	to present
Chu Junhao	Shanghai Institute of Technical Physics	Researcher	1984-12	to present
Chu Junhao	East China Normal University	Deputy Director of the Academic Committee	2018	to present
Chu Junhao	Shanghai Solar Cells Research and Development Center	Head	2008-1	to present
Chu Junhao	Shanghai Cambridge Technology Co., Ltd. (上海劍橋科技股份有限公司)	Independent director	2018-6-26	2021-6-25
Chu Junhao	Hengtong Optic-Electric Co,.Ltd. (江蘇亨通光電股份有限公司)	Independent director	2018-5-22	2021-5-21
Chu Junhao	Shanghai Tunnel Engineering Co., Ltd. (上海隧道工程股份有限公司)	Independent director	2018-12-28	2021-12-27
Xi Juntong	Shanghai Jiao Tong University	Professor of Mechanical Manufacture and Automation and at the State Key Laboratory of Mechanical System and Vibration and Doctoral Supervisor	2003-4	to present
Xi Juntong	Shanghai Intelligent Manufacturing Institute(上海智能製造研究院)	Acting dean	2015-12	to present
Xi Juntong	Shanghai Key Laboratory of Network-based Manufacturing and Enterprise Informatization (上海市網絡化製造與企業信息化重點實驗室)	Head	2009-9	to present
Zhou Guoxiong	Shanghai Tunnel Engineering Co., Ltd. (上海隧道工程股份有限公司)	Chairman of the supervisory committee	2018-12-28	2021-12-27
Dong Jianhua	Shanghai Highly (Group) Co., Ltd.	Chairman of the board of directors	2017-12-12	2020-12-11
Dong Jianhua	Shanghai Lingang Holdings Limited	Director	2018-10-26	2021-10-25
Zhang Mingjie	Shanghai Highly (Group) Co., Ltd.	Deputy chairman of the board of directors	2018-5-17	2020-12-11

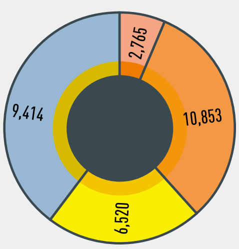
Remunerations of Directors, Supervisors and Senior Management

Procedures for determining the remunerations of Directors, Supervisors and senior management	The remunerations of our Directors and Supervisors (non-employee representatives) are determined in 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 the completion of annual operation plan.
Remunerations paid to Directors, Supervisors and senior management	Remunerations were paid to the Directors, Supervisors and senior management of the Company based on their respective entitlement.
Total actual remunerations received by all Directors, Supervisors and senior management up to the end of reporting period	RMB14.1658 million

Statistical Chart of Personnel Classification



Statistical Chart of Education Level



Changes of Directors, Supervisors and Senior Management of the Company

Name	Position	Change	Reason for the change
Huang Ou	Executive Director	Elected	Elected at general meeting
Zhu Zhaokai	Executive Director	Elected	Elected at general meeting
Zhu Bin	Executive Director	Elected	Elected at general meeting
Li An	Non-executive Director	Elected	Elected at general meeting
Xi Juntong	Independent Non-executive Director	Elected	Elected at general meeting
Zhou Guoxiong	Supervisor	Elected	Elected at general meeting
Zhou Guoxiong	Chairman of the Supervisory Committee	Elected	Elected by the Supervisory Committee
Hua Xingsheng	Supervisor	Elected	Elected at general meeting
Hua Xingsheng	Deputy Chairman of the Supervisory Committee	Elected	Elected by the Supervisory Committee
Han Quanzhi	Supervisor	Elected	Elected at general meeting
Zhu Xi	Supervisor (employee representative)	Elected	Elected at staff congress
Huang Ou	President	Appointed	Work requirements
Lv Yachen	Vice President	Appointed	Work requirements
Dong Jianhua	Vice President	Appointed	Work requirements
Gu Zhiqiang	Vice President	Appointed	Work requirements
Jin Xiaolong	Vice President	Appointed	Work requirements
Hu Kang	Chief Financial Officer	Appointed	Work requirements
Zhang Mingjie	Chief Investment Officer	Appointed	Work requirements
Zhu Kelin	Vice Chairman of the Board	Resigned	Expiration of term
Li Jianjin	Non-executive Director	Resigned	Expiration of term
Lui Sun Wing	Independent Non-executive Director	Resigned	Expiration of term
Dong Jianhua	Chairman of the Supervisory Committee, Supervisor	Resigned	Change of work arrangement
Zhou Changsheng	Supervisor	Resigned	Expiration of term
Zheng Weijian	Supervisor	Resigned	Expiration of term
Li Jing	Chief Information Officer	Resigned	Personal reason

Employees of the Company and Principal Subsidiaries

Staff

Number of current staff in the Company	200
Number of current staff in the principal subsidiaries	30,670
Total number of current staff	30,870
Number of retired staff for whom the Company and the principal subsidiaries are responsible for the retirement benefits	305

Personnel classification

Personnel categories	Number of persons
Production personnel	13,753
Sales personnel	2,761
Technical personnel	9,845
Financial personnel	893
Administration personnel	3,618
Total	30,870

Education Level

Categories by education level	Number of persons
Postgraduate and above	3,076
Undergraduate	12,045
Tertiary education	6,453
Secondary education and below	9,296
Total	30,870

Remuneration Policy

During the reporting period, the Company paid wages and salaries to its employees and made social insurance contributions for them in strict compliance with the relevant laws and regulations. There was no default in payment of wages or remuneration to employees or labour service workers. The Company set up a comprehensive system which synchronized the increase of employees' salaries with the improvement in labour productivity; thus, the level of wage increase of the Company and the wages adjustment of employees of various work positions can be determined reasonably. The Company insisted on the policy of "Dual Inclination, Dual Care" and implemented policies that tilted towards scientific and technological staff and the front-line technical workers while paying special care towards temporarily unemployed staff and workers and those who are in financial difficulties.

Training Program

During the reporting period, the Company, following the strategy of the Group, adhered to the demand-oriented approach and proceeded with the establishment of training system and training base. It emphasized training for core employees, especially for leading cadres and strategically needed talent, and promoted staff training on a full coverage basis, so as to boost the business development of the Group and enhance the value of human capital.

Contracted Labour

Total remuneration paid to contracted labour	RMB78 million

Services Contracts of Directors and Supervisors

None of the Directors and Supervisors of the Company has entered into any service contract with the Company which is not terminable by the Company 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 any of their respective associates had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

Permitted Indemnity Provision

The Company has arranged appropriate insurance coverage for Directors, Supervisors and senior management's liabilities in respect of potential legal actions against its Directors, Supervisors and senior management arising out of the business activities of the Company.

Share Option Incentive Scheme

On 22 January 2019, the Board of Directors considered and approved the resolution in relation to the proposed adoption of Restricted A Share Incentive Scheme. The scheme shall become effective upon consideration and approval in an extraordinary general meeting and share class meetings of the Company to be held on 6 May

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 as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Hong Kong Listing Rules. All Directors and Supervisors of the Company confirmed that they had complied with the requirements contained in the Model Code throughout the year 2018. The Company was not aware of any non-compliance with the Model Code by any of its employees.

Board of Directors

During the reporting period, the Board comprised nine Directors, including four executive Directors, namely Zheng Jianhua, Huang Ou (appointed on 18 September 2018), Zhu Zhaokai (appointed on 18 September 2018) and Zhu Bin (appointed on 18 September 2018); two non-executive Directors, namely Yao Minfang, Li An (appointed on 18 September 2018), Zhu Kelin (resigned on 18 September 2018), Li Jianjin (resigned on 18 September 2018); and three independent non-executive Directors, namely Kan Shun Ming, Chu Junhao, Xi Juntong (appointed on 18 September 2018) and Lui Sun Wing (resigned on 18 September 2018). 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, the independent non-executive Directors attended the Board meetings in prudent, responsible, proactive and earnest manner. Fully leveraging on their experience and expertise, they made tremendous efforts in improving corporate governance and facilitating major decision-making process, expressed fair and objective opinions on 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 its 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 2018.

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

Name of Directors	Independent Non-executive Director	Attendance at Board meetings: Required attendance in Board meetings during the year	Attendance at Board meetings: Attendance in person	Attendance at Board meetings: Attendance via other communication means	Attendance at Board meetings: Attendance by proxy	Attendance at Board meetings: Absence	Attendance at Board meetings: Absence for two consecutive meetings in person	Attendance at general meetings: Attendance record at general meetings
Zheng Jianhua	No	19	19	14	0	0	No	2
Huang Ou	No	5	5	4	0	0	No	2
Zhu Zhaokai	No	5	5	4	0	0	No	0
Zhu Bin	No	5	5	5	0	0	No	0
Yao Minfang	No	19	19	14	0	0	No	3
Li An	No	5	5	5	0	0	No	0
KAN Shun Ming	Yes	19	19	14	0	0	No	4
Chu Junhao	Yes	19	19	14	0	0	No	4
Xi Juntong	Yes	5	5	4	0	0	No	2
Zhu Kelin	No	14	12	10	2	0	No	0
Li Jianjin	No	14	13	10	1	0	No	0
Lui Sun Wing	Yes	14	14	10	0	0	No	2

Number of Board meetings convened during the year	19
Of which: number of meetings by physical attendance	4
Number of meetings convened via other communication means	14
Number of meetings convened by physical attendance as well as via other communication means	1

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 set out 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. As explained in the Corporate Governance Report of 2017 Annual Report, as from 1 September 2017, 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 before the nomination committee of the Board can 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 over this transition period which ended on 17 September 2018. From 18 September 2018 onwards, Mr. Zheng Jianhua has been the Chairman of the Board and the Chief Executive Officer of the Company, and Mr. Huang Ou, being elected executive Director and the President of the Company, has been fully responsible for the daily operations and execution

of the Company. The Company is of the 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 assessing 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 comprises Mr. Kan Shun Ming, Dr. Chu Junhao, Dr. Xi Juntong (appointed on 18 September 2018), independent non-executive Directors, and Ms. Yao Minfang, a non-executive Director, and is chaired by Mr. Kan Shun Ming, an independent non-executive Director. During the reporting period, Dr. Lui Sun Wing, a former member of the Audit Committee, resigned on 18 September 2018.

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.

Thirteen meetings were held by the Audit Committee during the reporting period. At 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. The Audit Committee has also reviewed the quarterly, interim and annual financial reports of the Company, material connected transactions, continuing connected transactions and the appointment of and remuneration for auditors, and listened to the report on the 2018 risk management plan of the Company given by Audit and Inspection Office of the Company. On 26 March 2019, the Audit Committee reviewed and passed the 2018 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)	13/13
Lui Sun Wing (Former member)	8/8
Chu Junhao	13/13
Yao Minfang	13/13
Xi Juntong	5/5

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. Chu Junhao and Mr. Kan Shun Ming (appointed on 18 September 2018), and is chaired by Dr. Chu Junhao. Dr. Lui Sun Wing, former chairman of the Remuneration Committee, resigned on 18 September 2018, and Mr. Zhu Zhaokai, former member of the Remuneration Committee, resigned on 22 January 2019.

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
Chu Junhao (Chairman of the Committee)	1/1
Lui Sun Wing (Former chairman of the Committee)	1/1
Kan Shun Ming	0/0
Zhu Zhaokai (Former member)	0/0

Strategy Committee

The strategy committee under the Board of the Company (the "Strategy Committee") currently comprises Mr. Zheng Jianhua, Mr. Huang Ou (appointed on 18 September 2018), Dr. Chu Junhao and Dr. Xi Juntong (appointed on 18 September 2018), and is chaired by Mr. Zheng Jianhua. Dr. Lui Sun Wing, former member of the Strategy Committee, resigned on 18 September 2018.

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 Dr. Chu Junhao, Mr. Zhu Zhaokai (appointed on 18 September 2018) and Mr. Kan Shun Ming, and is chaired by Dr. 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 "Board Diversity Policy of Shanghai Electric Group Company Limited", which includes the requirements of compliance with relevant laws, regulations and the 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, 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.

One meeting was held by the Nomination Committee of the Company during the reporting period, at which candidates for the new session of the Board were considered.

The attendance record of committee members at the mweeting of the Nomination Committee during the reporting period

(actual attendance/required attendance at the meeting)

Name of Nomination Committee Member	Actual attendance/ attendance required
Chu Junhao (Chairman of the Committee)	1/1
Kan Shun Ming	1/1
Zhu Zhaokai	0/0

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 2018, 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 size and composition 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 Supervisor	Actual attendance/ attendance required
Zhou Guoxiong	5/5
Hua Xingsheng	5/5
Han Quanzhi	5/5
Zhu Xi	5/5
Li Bin	16/16
Dong Jianhua (resigned on 3 August 2018)	10/10
Zhou Changsheng (resigned on 18 September 2018)	11/11
Zheng Weijian (resigned on 18 September 2018)	11/11

Senior Management

As at the date of this report, the Company has thirteen senior management members in total, namely Zheng Jianhua, Huang Ou, Lv Yacheng, Dong Jianhua, Zhang Ke, Chen Ganjin, Gu Zhiqiang, Jin Xiaolong, Hu Kang, Tong Liping, Fu Rong, Zhang Mingjie and Li Chung Kwong Andrew. The details of their duties, biographical details and remuneration 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 the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Hong Kong Listing Rules, the Company has established comprehensive risk management and internal control systems, 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 acknowledges that it has the responsibility to examine the risk management and internal control systems of the Company and through the Audit Committee reviews the effectiveness of such systems 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 systems, as well as review and approve the mid-to-long-term planning, annual audit plan as well as 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 systems of the Company, the review of working plans and annual report on risk management and internal controls. A risk management and internal control department of the Company is responsible for the design and establishment of the risk management and internal control systems, as well as annual organization of risks identification, evaluation and remedial measures and report, so as to promote execution of the internal controls and optimization of the system procedures; audit department of the Company is responsible for regular evaluations of the effectiveness of risk management and internal controls, as well as the appointment of accounting firms to conduct financial reporting internal control audit, so as to identify potential risks and internal control defects in a timely manner, urge the relevant operational departments and units to implement rectification measures and ensure the effective operation of the risk management and internal controls system of the Company.

In respect of the identification, assessment, management procedures and business processes that are exposed to material risks, the Company has formulated all-inclusive control measures, such as management and internal control on key work flows including the preparation and disclosure of financial reports and processing and announcement of inside information. Regular internal control measures were established through specific procedures to prevent risks in key segments and reduce the impacts of risks. In terms of the disclosure of inside information, the Company has established standardized control procedures to collect, organize, validate, review and disclose information. The Company will ensure that the information is kept confidential before it is fully disclosed to the public. For information that is difficult to keep confidential, the Company will disclose it in a timely manner to protect the benefit of investors and stakeholders.

In May 2018, the system of the Company integrated the duties of risk management, internal controls and compliance management, and established a specialized risk management department, to lead, organize and promote work for risk management and internal controls, based on the framework of continuous enhancement to the risk management and internal controls of the Company, as well as the foundation of a sound organizational system, further implement the responsibility of the three lines of defense for risk management, clarify their respective responsibilities and division of labor, take the role of prevention and mitigation of risks, and upraise the bulwark for risk prevention.The Company designs and establishes the risk management and internal control systems, 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", providing perfect system guarantee for risk management and internal control, the Company 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, continues to improve the company's risk management capabilities and reduce risk levels. The company continues to optimize the internal control environment and improve control measures, continuously improves the internal control system and processes, timely rectifies internal control defects discovered and conducts annual appraisal, and urges implementation of internal control measures to promote the continuous improvement of the internal control system.

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 ongoing basis..

The Company appoints accounting firms to conduct financial reporting 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 2018, 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, site visits and reverse roadshows for investors from time to time. The team has also actively attended investors' forums 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 investor relations work to further enhance its transparency.

Other Matters

During the reporting period, the Company amended twice its Articles of Association, and such amendments were approved by way of a special resolution at the 2017 annual general meeting of the Company and a special resolution at the 2018 first extraordinary general meeting of the Company, respectively. For details of the amendments, please refer to the circulars of the general meetings dated 30 May 2018 and 20 August 2018, respectively, and the announcements on the voting results of the general meetings dated 29 June 2018 and 18 September 2018, respectively.

Summary of General Meetings

Session of the meeting	Date of meeting	Designed websites where resolution Published	Disclosure Date of resolution
2017 annual general meeting	29 June 2018	www.hkexnews.hk www.sse.com.cn	29 June 2018 30 June 2018
2018 first extraordinary general meeting	18 September 2018	www.hkexnews.hk www.sse.com.cn	18 September 2018 19 September 2018
2018 second extraordinary general meeting	22 October 2018	www.hkexnews.hk www.sse.com.cn	22 October 2018 23 October 2018
2018 third extraordinary general meeting, 2018 first A shareholders' class meeting, and 2018 first H shareholders' class meeting	10 December 2018	www.hkexnews.hk www.sse.com.cn	10 December 2018 11 December 2018

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 2018.

Principal Activities

The principal business of the Company focuses on four major segments, 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 major subsidiaries of the Company are set out in note 22 to the financial statements. There were no significant changes in the principal activities of the Group during the year.

Buiness Review

During the reporting period, the Company achieved revenue of RMB101,158 million, representing a year-on-year increase of 27.17%; the net profit attributable to owners of the Company of RMB2,980 million, representing a year-on-year increase of 13.44%.

The Board proposed to declare a final dividend of RMB6.146 cents per share for 2018, accounting for 30.36% of the profit attributable to owners of the Company for 2018.

Analysis of principal business, assets and liabilities, and operational information by industry, and the Board's discussion and analysis on the future prospect of the Company are set out below:

Analysis of Principal Business

Analysis of changes of relevant items in the income statement and the statement of cash flows

Unit: 100 million; Currency: RMB

Items	For the year ended 31 December 2018	For the year ended 31 December 2017	Percentage of change (%)
Revenue	1,011.58	795.44	27.17
Costs of sales	827.08	637.02	29.84
Distribution expenses	27.59	22.54	22.40
Administrative expenses	108.19	114.47	-5.49
Finance cost	9.40	4.58	105.24
Net cash flows generated from operating activities	9.49	-75.25	N/A
Net cash flows generated from investing activities	-28.07	-43.27	N/A
Net cash flows generated from financing activities	111.47	31.98	248.56

Analysis of changes

The year-on-year increase in revenue was attributable to the significant growth in revenue of various business segments resulting from effective implementation of the strategies of the Group during the reporting period.

The year-on-year increase in finance cost was due to the significant increase in external borrowings as at the end of the reporting period resulting from the expansion of the Group's new business and the optimization of the capital structure during the reporting period.

There were net cash inflows generated from operating activities for the reporting period compared with net cash outflows for the corresponding period of preceding year, mainly due to better collection of receivables resulting from strengthened capital management of the Group.

The year-on-year decrease in net cash outflows generated from investing activities was mainly due to the decrease in investments of the Company's financial business during the reporting period.

The year-on-year increase in net cash inflows generated from financing activities was mainly due to the issuance of mid-term notes by the Company in the reporting period and the increase in borrowings.

Analysis of revenue and cost

For the reporting period, the Company recorded revenue of RMB101,158 million, representing a year-on-year increase of 27.17%. The gross profit margin for the reporting period was 18.24%, representing a decrease of 1.68 percentage point over the 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	138.71	116.10	16.3	25.89	23.33	An increase of 1.7 percentage points
High efficiency and clean energy equipment	342.27	292.51	14.5	30.77	31.62	A decrease of 0.6 percentage point
Industrial equipment	374.60	305.00	18.6	11.59	14.00	A decrease of 1.7 percentage points
Modern services	170.17	141.00	17.1	24.54	35.58	A decrease of 6.8 percentage 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	899.13	734.90	18.27	30.26	33.18	A decrease of 1.8 percentage points
Other countries/regions	112.45	92.18	18.03	6.92	8.19	A decrease of 1.0 percentage points

Major customers

The sales revenue from the five largest customers of the Company was RMB7,747 million in aggregate for the reporting period, accounting for 7.66% of the total sales revenue of the Company.

Major suppliers

The purchases from the five largest suppliers of the Company amounted to RMB1,607 million in aggregate for the reporting period, accounting for 1.94% of the total purchases of the Company.

Analysis of Costs

Unit: 100 million; Currency: RMB

BY SEGMENT

By segment	Cost component	For the year ended 31 December 2018	Proportion in the total costs (%)	For the year ended 31 December 2017	Proportion in the total costs (%)	Percentage of change (%)
Equipment for new energy and environmental protection	Raw materials	82.78	71.30	65.88	69.98	25.65
Equipment for new energy and environmental protection	labour costs	5.38	4.63	3.04	3.23	76.97
Equipment for new energy and environmental protection	other fees	27.94	24.07	25.22	26.79	10.79
Equipment for new energy and environmental protection	Total	116.10	100	94.14	100	23.33
High efficiency and clean energy	Raw materials	237.97	81.36	183.56	82.60	29.64
High efficiency and clean energy	labour costs	20.39	6.97	18.00	8.10	13.28
High efficiency and clean energy	other fees	34.15	11.67	20.67	9.30	65.19
High efficiency and clean energy	Total	292.51	100	222.23	100	31.62
Industrial equipment	Raw materials	242.19	79.41	215.22	80.44	12.53
Industrial equipment	labour costs	23.97	7.86	17.67	6.60	35.65
Industrial equipment	other fees	38.84	12.73	34.66	12.96	12.05
Industrial equipment	Total	305.00	100	267.55	100	14.00
Modern services	Equipment	94.90	67.31	65.61	63.09	44.64
Modern services	Civil construction	20.46	14.51	23.47	22.56	-12.82
Modern services	other fees	25.64	18.18	14.92	14.35	71.85
Modern services	Total	141.00	100	104.00	100	35.58

R&D expenditure

Unit: 100 million; Currency: RMB

R&D expenditure expensed in the reporting period	37.2
R&D expenditure capitalized in the reporting period	0
Total R&D expenditure	37.2
Percentage of total R&D expenditure to total revenue (%)	3.68
Number of R&D staff	3,082
Percentage of R&D staff to total staff (%)	9.98
Percentage of R&D expenditure capitalized (%)	0

Description

New Energy and Environmental Protection Equipment

In respect of nuclear power equipment technology, Shanghai Electric delivered the reactor vessel internals for the world's first "Hualong One" reactor, the 200MW CRDM and absorption sphere of high temperature gas-cooled reactor, as well as rolling out China's first thorium molten salt reactor product. Meanwhile, we also carried out design and development of the conveyance, elevator and passive control rod of sodium-cooled fast reactor, as well as technology research and development on the transmutation of the world's first accelerator driven system and lead-cooled fast reactor.

As for comprehensive energy utilization, the "Internet Plus" smart energy demonstration project system in Sanxing Town of Chongming in Shanghai Municipality undertaken by the Company completed commissioning and was transferred to its owner. The system materialized the idea of "wind and solar power generation, energy storage and EV charging" integration and thereby enabled the reciprocal support among wind and solar power generation and energy storage, uniform management of on-grid and off-grid systems and flexible transaction on the basis of green energy. In terms of environmental protection, the water treatment project in Chenguang village, Chenjia Town in Shanghai City undertaken by the Company adopted the distributed, modular-based and intelligent domestic sewage treatment devices, realized full collection and full treatment of domestic sewage from 300 farmer households in the neighborhood, and displayed the characteristics of high activity, impact resistance, standard phosphorus content, low energy consumption, self-digestion and long useful life.

High efficiency and clean energy equipment

In the field of green coal-fired power generation technology, the world's first ultra-supercritical generating unit equipped with double engine regeneration system designed and manufactured by the Company, passed the 168-hour trial commissioning successfully in Lufeng Jiahuwan Power Plant in Guangdong and entered into commercial operation stage officially. The thermal economy of such generating unit has met up to the best level of single reheat generating unit and its heat consumption rate approximated to that of the second-reheat generating unit and reached the worldwide advanced level.

In the field of gas turbine technology, the Company's Ansaldo E-series gas turbine project, the first one in the PRC, passed the 96-hour trial commissioning successfully and entered into the stage of commercial operation officially. Henceforth, three types of Ansaldo gas turbine products of the Company including the Senior F and Junior F series were all put into operation within the same year.

Industrial Equipment

In the field of elevators, the Company continued the R&D of kernel technology and key components for high-speed elevator and completed the R&D work for kernel technologies concerning HP synchronous gearless PM tractor and drive-control system development and vibrating noise control technology for high-speed elevators with 10m/s or higher speed, having laid a solid foundation for the development of the 10m/s high-speed elevator machine to be initiated in 2019. In addition, in order to cater to the new popular targets in the market such as household elevators, elevator installation in existing buildings and retrofit and renovation of elevators in use, the Company completed the corresponding product development and relevant solutions.

In the field of intelligent manufacturing, the Company completed the project development for the "research and application of the kernel technology concerning intelligent manufacturing of elevator tractor (電梯曳引機智能製造核心技術的研究與應用)", made technological breakthroughs in respect of the technologies regarding heavy-duty robot application, robot high-precision assembly, flexible production and automatic debugging as well as in intelligent warehousing and logistics and simultaneous assembly of multiple robots, and managed to apply such technoglogies in the elevator tractor production line, which was the first in the industry.

Analysis of assets and liabilities

Assets and liabilities

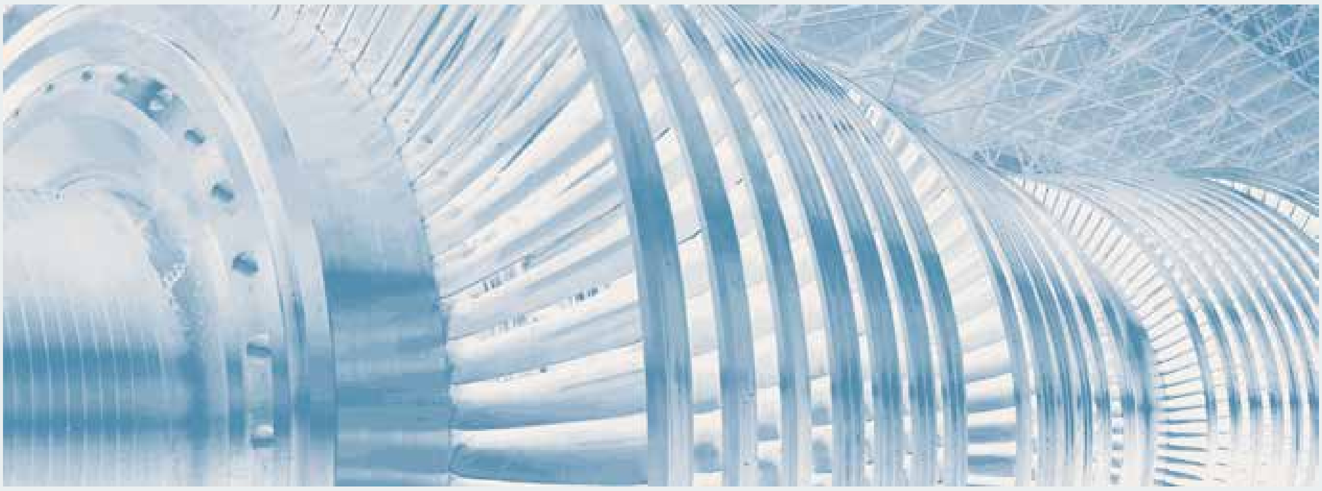
Unit: 100 million; Currency: RMB

Items	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 (%)
Trade receivables	188.41	8.62	279.06	14.00	-32.49
Trade payables	388.81	17.79	337.40	16.93	15.24
Interest-bearing bank borrowings and other borrowings	199.40	9.12	73.68	3.70	170.62

(1) The decrease in trade receivables as compared with the opening balance was mainly due to the fact that certain trade receivables for which the right to receive payment have not become unconditional were reclassified as contract assets under the new financial instrument standards.

(2) The increase in trade payables as compared with the opening balance was mainly due to increased purchases for projects in the reporting period.

(3) The increase in interest-bearing bank borrowings and other borrowings as compared with the opening balance was mainly due to the significant increase in external borrowings as at the end of the reporting period resulting from the expansion of the Group's new business and the optimization of the capital structure during the reporting period.



Analysis on operational information by industries

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

New energy and environmental protection equipment: For nuclear power, following the successive commencement of operation of Tianwan No.3 and No. 4, Yangjiang No. 5, Taishan No. 1, Sanmen No.1 and No. 2, as well Haiyang No. 1 power generation units in 2018, the total number of nuclear power generation units having been completed and put in operation rose to 44 with a total installed capacity of 44.645GW in China. After the three-year record of nil approval, four generating units designed with "Hualong One" technology, i.e., Zhangzhou No. 1 and No. 2 as well as Huizhou Taipingling No. 1 and No. 2, were finally approved in January 2019, and nuclear power projects in the PRC were henceforth initiated in due form. Based on the 13th Five-Year Plan on Energy Development, a number of projects, including "Hualong One", CAP1000, fast reactors, high temperature gas cooled reactors and small reactors will be further advanced in the last two of the years covered by the 13th Five-Year Plan. In addition, with the successful commercial operation of the 3G nuclear power generation units, technological obstacles concerning nuclear power have been substantially wiped out, and the industry is thus ushering in a new round of development. For wind power business, as driven by the improvement of wind curtailment, the auction mechanism for wind power projects and accelerated development of offshore wind power, domestic new installed capacity of wind power connected to the grid picked up and new installed capacity (already connected to the power grid) amounted to 20.59 GW in 2018. The new installed capacity of wind power equipment delivered by Shanghai Electric in 2018 amounted to 1.10 GW, the Company's first position for offshore wind power equipment delivery in China maintained. As for environmental protection, China continues to step up its efforts on environmental protection with new measures including the Action Plan for Water Pollution Prevention and Control, the Action Plan for Soil Pollution Prevention and Control and the Action Plan on Air Pollution Prevention and Control, as well as launching urban environmental infrastructure and other major projects to promote environmental protection.

High Efficiency and Clean Energy Equipment: According to the statistics released by the National Energy Administration, in 2018, the average utilization hours of power generating units of 6,000 kW or above in China were 3,862 hours, representing a year-on-year increase of 73 hours. In particular, the average utilization hours of thermal power equipment were 4,361 hours, representing a year-on-year increase of 143 hours and having been picking up for two consecutive years, which meant that the national macro regulatory policies on conventional thermal power generation have come into play progressively. 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. According to the press release of China Electricity Council, electricity transmission and distribution grid construction projects in China continued to attract large-scale investments in 2018. Especially, UHV electricity transmission and distribution grid construction projects remain as the key area of power grid investment and construction. With the advent of the pivotal stage for transforming the growth model, improving the economic structure, and fostering new drivers of growth in the development course of power grid, the diversified landscape of power supply has become more and more clear, electricity structure has shown an increasingly evident low-carbon inclination, and the intelligent features of electricity system stood out with each passing day. We will, in tune with the macro development momentum of energy and power meticulously, secure our current footing and contrive for the long run to optimize our product portfolio and service composition on a continuous basis.

Industrial Equipment: By the end of 2018, the number of elevators in use in China exceeded 6 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 maintain a steady growth trend. By the end of 2018, there were more than 700 elevator manufacturers in the industry. It is expected that the elevator industry competition will be more intense in the next few

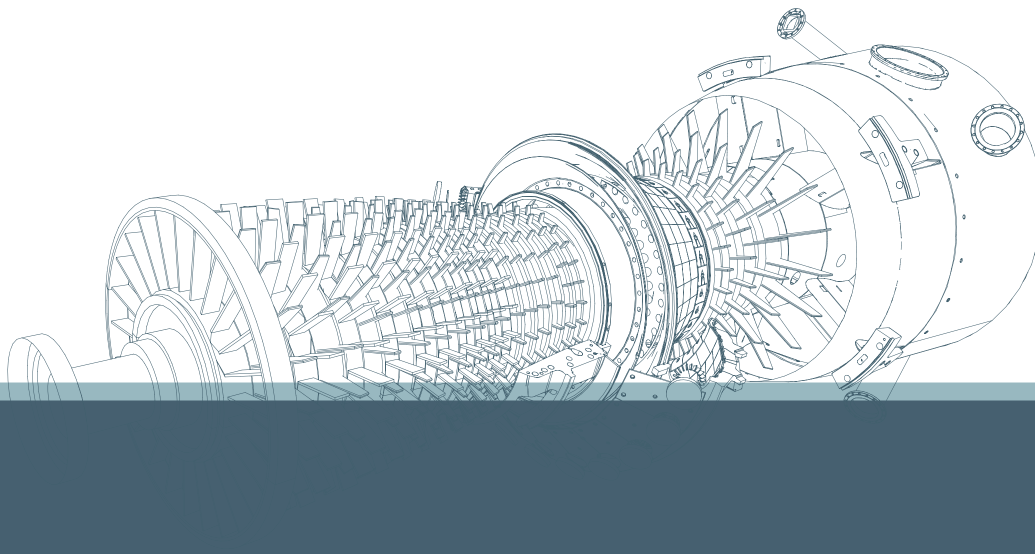
years. With worsening overcapacity in the industry, the industry competition will lead to a development trend for consolidation into "giant corporations".

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. By building on the national Belt & Road initiative, we targeted at more than 50 countries and regions covered by the "Belt & Road" initiative as the principal markets of our power plant engineering business. We have established overseas sales network presence in India, Malaysia, Saudi Arabia, Dubai and other overseas regions 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 investment 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".

Analysis on Investments

Material equity investment

In June 2018, the Company invested RMB590,999,995.04 to participate in the subscription of Thvow Technology's non-public offering of 81,181,318 shares, accounting for 9.19% of the total share capital of Thvow Technology. On 3 August 2018, at the 70th meeting of the fourth session of the Board of the Company, the Directors reviewed and approved the resolution on the acquisition of shares in Suzhou Thvow Technology Co., Ltd. and voting rights entrustment and agreed to the funding of a consideration of RMB350,225,297.68 by the Company, to acquire by means of transfer agreement, 43,763,300 shares of Thvow Technology held by Mr. Chen Yuzhong and 7,514,196 shares of Thvow Technology held by Ms. Qian Fengzhu, the spouse of Mr. Chen Yuzhong, 51,277,496 shares in total and representing 5.81% of the total share capital of Thvow Technology. At the same time, the Company will be entitled to exercise voting rights associated with 131,290,074 shares of Thvow Technology held by Mr. Chen Yuzhong, representing 14.87% of the total share capital of Thvow Technology. The principal business of Thvow Technology consists of three segments, namely energy engineering services, manufacturing of high-end equipment and military-civilian integration. Currently, the Company directly holds 132,458,814 shares of Thvow Technology, representing 15.00% of the total share capital of Thvow Technology and also holds voting rights corresponding to 131,290,074 shares of Thvow Technology, representing 14.87% of its total share capital. The total voting rights in Thvow Technology held by the Company correspond to 263,748,888 shares in Thvow Technology, representing 29.87% of the total share capital of Thvow Technology. The Company is the controlling shareholder of Thvow Technology.



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	Classification in accounts	How shares being obtained
600642	Shenergy	2,800,000	0.06	13,176,000	-2,646,000	Other non-current financial assets	Purchase
600011	Huaneng Power	499,999,994	0.005	523,664,116	23,664,122	Other non-current financial assets	Purchase
600021	Shanghai Electric Power Co., Ltd.	149,999,994	0.01	175,076,680	25,076,686	Other non-current financial assets	Purchase
600633	Zhejiang Daily Digital Culture	7,471,992	0.34	35,716,560	-30,895,920	Other non-current financial assets	Purchase
000501	Wu Han Department Store Group Co., Ltd. A	353,609	0.03	1,838,769	-1,256,880	Other non-current financial assets	Purchase
600665	Tande Co., Ltd.	1,399,200	0.09	2,724,480	-657,360	Other non-current financial assets	Purchase
600027	HDPI A-share	234,000,016	0.76	356,250,024	78,000,006	Other non-current financial assets	Purchase
601229	Bank of Shanghai	958,970	0.02	27,985,709	2,654,585	Other non-current financial assets	Purchase
	Total:	896,983,775		1,136,432,338	93,939,238	/	/

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

Industry competition landscape and development trend

At present, China's economy is running stably with underlying changes and misgivings, in consideration of the complicated and severe external environment, pressure from the economy downturn and increasing uncertainties in the growth of power consumption. After taking into full account international and domestic situations, industry operations and local developments as well as the effect of high base in 2018, and with reference to the statistics released by China Electricity Council, China's total power consumption in 2019 is expected to grow at a slower rate steadily and contribute an increase of around 5.5% throughout the year under the assumption of nonoccurrence of massive abnormal temperature.

According to the data of China Electricity Council released in January 2019, it is expected that, the national capacity for newly installed power generation infrastructure for the entire year of 2019 will be about 110 GW, of which newly installed capacity of non-fossil energy power will reach about 62 GW; the national installed capacity of power generation by the end of 2019 will reach around 2000 GW, representing a year-on-year increase of around 5.5%, of which, installed capacity to be contributed by hydropower, grid-connected wind power, grid-connected solar power, nuclear power and biomass power will reach 360 GW, 210 GW, 200 GW, 50 GW and 21 GW, respectively. Installed capacity of non-fossil energy-power generation will total about 840 GW, accounting for approximately 41.8% over the total installed capacity, up by 1 percentage point as compared to last year. In 2019, installed capacity of new energy power generation will continue to increase; the grid will underperform in respect of time-segmented peak shaving with the widening of the peak-valley gap due to continuous increase in the share of power consumption in the tertiary industry and for household usage; and coal for power generation will continue to possess high price and show a seasonal supply-demand tension in some regions. In view of various factors as well as the conflicts and synergies thereunder, it is expected that national power supply and demand for the year will stay balanced on the whole but be accompanied by the power supply-demand tension in some regions at rush periods. In particular, time-segmented power supply-demand tension will arise in local areas in North China and Central China; East China will maintain an overall balanced supply and demand; the South will also enjoy a generally balanced supply and demand, regardless of the tight situation in Guangxi and Guizhou during dry season and the pressure of clean energy consumption in Yunnan during flood season; and power supply surplus is expected to occur in the northeastern and northwestern areas. National utilization hours of coal-fired power generation equipment in 2019 is expected to reach approximately 4,400 hours.

As a large energy equipment manufacturing conglomerate, we 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, in-house R&D of gas turbines, retrofit of coal-fired power plants to achieve ultra-low emissions, etc.

Development strategy of the Company

As a large-scale integrated equipment manufacturing conglomerate, 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. Cutting overcapacity in heavy machinery, coal-fired power generation and other industries are still one of the main focuses of the national macroeconomic policies. A new round of global technological revolution and industry transformation is emerging, multinational corporations are enhancing their strategic planning 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 "Belt & Road" initiative, regard customer demands as the driving engine and take craftsmanship as our ethos, endeavoring to provide China and the world with more efficient, eco-friendly and economic energy and industrial equipment and integrated solutions and 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 enhance our strength and competitiveness in respect of 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. We will vigorously tap into new industries such as environmental protection and automation and actively explore oil and gas, ocean engineering, medical equipment and aviation industry 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 and integrate endogenous production and operation with exogenous investment and M&As to promote the leap-forward development of Shanghai Electric.

Operation plans

In 2019, Shanghai Electric will set out on a new journey. We will, under the philosophy of pursuing the development that gives balanced consideration to pace, quality and benefits, make use of our comparative advantages, transform the traditional manufacturing resources into resources for high-end and intelligent manufacturing, break the development bottlenecks, improve development quality and push for technological innovations and institutional innovation, thereby initiating a new round of strategic development of the Group. In 2019, our goal is to maintain the healthy and stable development momentum and record revenue growth as compared to 2018. Our focus will rest on the following tasks:

Insist on strategic orientation to accelerate industrial transformation and upgrade

In 2019, we will observe the strategic orientation of "green, environmental protection, intelligent approach, interconnection and comprehensive solution" to contribute energetic efforts to make arrangements for strategic emerging industries concerning new energy, environmental protection, intelligent manufacturing and relevant systemic solutions, intelligent transportation, etc. We will advance the transformation and upgrade from traditional manufacturing to intelligent manufacturing to improve the competitiveness of products of the existing businesses, generalize the internal application of intelligent manufacturing and carry forward the construction of the industrial Internet platform of the Group; and speed up the external marketing of intelligent manufacturing solutions in targeted segmented markets of intelligent manufacturing.

Remain committed to the strategy to improve development quality

In 2019, we will further improve the development quality of the Group. We will further branch out through new mechanisms, new products and new modes, increase the synergic effects of market expansion and extend the coverage of intra-industry supporting mechanism by means of information-based management. Besides, we will spend more efforts on new product development, extend such business mode as equipment manufacturing to that of manufacturing plus service and take initiative to develop intelligent and remote services to improve customer expertise and loyalty. We will also take greater pains in respect of concentrated procurement, increase the categories of materials subject to concentrated procurement and enhance process management of receivables and inventories to reduce the operation costs and risks of the Group and improve the development quality of the Group.

Optimize the allocation of R&D resources to level up technological innovation capacity

We will enhance the establishment of technology development systems in close compliance with the technology development scheme of the Group. We will keep abreast of and edge into the frontier of new industrial technology from the perspective of the "demand side" of R&D, reinforce our efforts on making breakthroughs in new industrial technology and on capability improvement, and increase our R&D investment on a continuous basis. We will set up the coordinated external cooperation system and expand the channels for cooperating with universities, incubating organizations and venture capital funds so as to create an open-ended innovation cooperation system. We will accelerate the application of strategic foresighted technological achievements, advance the rolling out of new industrial technological results and strive for strategic step forward emphatically in areas such as energy storage, high-end medicare and intelligent manufacturing.

Promote staff development to release management vitality

We will complement the medium-to-long-term restrictive and incentive mechanism of Shanghai Electric by progressively implementing the restrictive share incentive scheme for the members of senior management and middle-level management as well as key employees and exploiting diversified and market-based incentive measures in the major businesses so as to arouse the enthusiasm and creativity of employees and offer them the development achievements. We will capitalize on the youth elite library and overseas talent pool to innovate the way of personnel cultivation and accelerate the construction of the staff apartments, thereby laying stronger foundation for attracting talented employees and in turn encashing their competence.

Take hold of the policy niche to set foot in the construction of the science and technology innovation board energetically

We will energetically take hold of such a niche from the policy that spin-offs of a PRC listed company are allowed to be listed on the science and technology innovation board. Leveraging our strengths in respect of technology, capital, human resources, etc., Shanghai Electric will select eligible technology innovation enterprises with independent businesses from the Group for spin-off listing by virtue of the innovation policies of science and technology innovation board so that they are able to pursue innovative development for the transformation and development of the Group as a whole, further increasing the overall valuation of the Company.

Potential Risks

Market Risks

Equipment manufacturing industry is greatly affected by the public investment in fixed assets and highly correlated with national economic growth. Changes in 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 to and regularly analyze the possible impact of 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 its management efficiency, and actively develop its business model in an innovative manner. The Company 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 2018, the Group had an aggregate amount of bank and other borrowings and bonds of RMB32,689 million (2017: RMB19,026 million), representing an increase of RMB13,663 million as compared with that of the beginning of the year, primarily due to the increase in external investments. Borrowings and bonds repayable by the Company within one year amounted to RMB10,351 million, representing an increase of RMB5,528 million as compared with that of the beginning of the year. Borrowings and bonds repayable after one year amounted to RMB22,338 million, representing an increase of RMB8,136 million as compared with that of the beginning of the year.

As at 31 December 2018, included within the bank and other borrowings of the Group are unsecured bank borrowings of USD191,902,000 in total (2017: USD144,139,000), equivalent to RMB1,317,062,000 (2017: RMB941,833,000), EUR42,442,000 in total (2017: EUR127,203,000), equivalent to RMB333,063,000 (2017: RMB992,475,000), and HKD450,000,000 in total (2017: HKD nil), equivalent to RMB394,290,000 (2017: RMB nil), secured bank borrowings of EUR100,495,000 in total (2017: EUR103,281,000), equivalent to RMB788,612,000 (2017: RMB805,832,000) and guaranteed bank borrowings of USD73,515,000 in total (2017: USD35,975,000), equivalent to RMB504,549,000 (2017: RMB235,071,000). All remaining borrowings are bank borrowings which are denominated in Renminbi.

As at 31 December 2018, 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 30.74%, representing an increase of 9.54 percentage points as compared with 21.20% at the beginning of the year.

Pledge of Assets

As at 31 December 2018, the Group's bank deposits to the extent of RMB703 million (2017: RMB565 million) and bills receivable to the extent of RMB198 million (2017: RMB222 million) were pledged to banks to secure borrowings or credit facilities. In addition, the Group's certain properties with net carrying value of RMB595 million as at 31 December 2018 (2017: RMB423 million), were pledged as security for certain bank loans of the Group. Moreover, the Group pledged the equity interests in certain subsidiaries to secure bank borrowings.

Events After the Date of Financial Statements

For details of the proposed final dividend for 2018, please refer to note 13 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 48 to the financial statements for details.

Capital Commitments

Please refer to note 50 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 maintained 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. The use of the proceeds and utilization plan, etc. are in line with the offering circular.

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, as the capital contribution to Shanghai Electric Leasing Co., Ltd. (上海電氣租賃有限公司)and for replenishing the working capital of the Company. Actual use of the proceeds is in line with the above disclosure. During the year of 2017, the Company has fully utilized its proceeds from issuance of A Share convertible corporate bonds in previous years.

On 22 May 2015, Shanghai Electric Newage Company Limited (上海電氣新時代有限公司), a wholly-owned subsidiary of the Company, issued offshore bonds in the aggregate amount of EUR600 million, with such Eurobonds listed and traded on the Irish Stock Exchange from 25 May 2015 onwards. 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 were originally intended to be used to finance the projects including the Emerging Industrial Park Development Project at Gonghe New Road, the Innovative Industry Park Reformation Project at Beinei Road, the Technology Innovative Park Reformation Project at Jinshajiang Branch Road, and the Industrial Research, Development and Design and High-end Equipment Manufacturing Base Project at Jungong Road. According to the requirements such as adjustments by government authorities to the planning of the relevant areas where the proceeds-funded projects are located, in light of the Company's business development and the change in market conditions and on the principles of satisfying the requirements for use of raised proceeds and reducing the risks associated with the implementation of proceeds-funded projects, as considered and approved at the second meeting of the fifth session of the Board and approved at the 2018 third extraordinary general meeting of the Company, the proceeds would not be used to finance the Emerging Industrial Park Development Project at Gonghe New Road, the Technology Innovative Park Reformation Project at Jinshajiang Branch Road and the Industrial Research, Development and Design and High-end Equipment Manufacturing Base Project at Jungong Road. As considered and approved at the fourth meeting of the fifth session of the Board, the Company intends to apply part of the proceeds towards the successfully completed acquisitions of the 100% equity interests in Wujiang Taihu Industrial Wastes Treatment Company Limited (吳江市太湖工業廢棄物處理有限公司) and the 100% equity interests in Ningbo Hi-Firm Environmental Protection Company Limited (寧波海鋒環保有限公司). The Company has proceeded with the aforesaid acquisitions with its self-owned funds, and upon consideration and approval of the resolutions in relation to the proposed change in use of proceeds at the general meeting of the Company, it will use such proceeds to supplement the self-owned funds early invested.

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 Company for 2018 as shown on the financial statements of the Company prepared in accordance with the PRC GAAP was RMB1,402,255,000, and the undistributed profits at the end of 2017 was RMB11,186,881,000. After appropriation to statutory surplus reserves of RMB140,225,000 for the year 2018, deducting the effects of other adjusments (e.g., change in accounting policies) of RMB-566,559,000 and dividends payable on ordinary shares of RMB1,353,980,000, the distributable profits amounted to RMB10,528,372,000. As audited by PricewaterhouseCoopers Zhong Tian LLP, the net profit attributable to owners of the Company for 2018 under the PRC GAAP was RMB3,016,525,000, and the net profit attributable to owners of the Company for 2018 under Hong Kong Financial Reporting Standards was RMB 2,980,460,000.

The proposal for profit distribution for 2018: Based on the total share capital as at the record date for the Company's profit distribution, cash dividend of RMB0.6146 (tax inclusive) will be distributed to all shareholders for every 10 shares held, with an estimated dividend payment of RMB905,010,000, representing approximately 30% of the net profit attributable to owners of the Company of RMB3,016,525,000 for 2018 under the PRC GAAP, and 30.36% of the net profit attributable to owners of the Company of RMB2,980,460,000 for 2018 under Hong Kong Financial Reporting Standards.

Final dividend

The Board of the Company proposed to declare the final dividend for the year 2018 at RMB6.146 cents (tax inclusive) per share, which is subject to approval at the annual general meeting of the Company. The aforementioned proposed final dividend is expected to be paid to the shareholders of the Company on or before 27 August 2019.

Income tax withholding and payment in connection with final dividends

According to Enterprise Income Tax Law of the People's Republic of China and its 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 2018 to non-resident enterprise shareholders as appearing on the H Share register of members of the Company. Any shares registered in the name of non-individual 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 its shareholders on a later date about the date of the annual general meeting for the year 2018 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, neither the Company nor any of its subsidiaries had 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 Agreement

A Share Convertible Corporate Bonds

In January 2015, CSRC approved in writing the Company's public issuance of A share convertible corporate bonds in an aggregate sum of RMB6 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, and further adjusted from RMB10.66 per share to RMB10.65 per share from 28 November 2016, from RMB10.65 per share to RMB10.46 per share from 24 October 2017, from RMB10.46 per share to RMB10.37 per share from 9 November 2017, from RMB 10.37 per share to RMB10.28 per share from 28 August 2018 and from RMB10.28 per share to RMB5.19 per share from 12 December 2018. 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 2018, the Electric Convertible Bonds amounting to RMB7,537,000 have been converted into 710,658 A shares. During the reporting period, the Electric Convertible Bonds amounting to RMB35,000 have been converted into 6,742 A shares. As at 31 December 2018, the outstanding Electric Convertible Bonds amounted to RMB5,992,463,000.

As at the end of the reporting period, if all outstanding 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 outstanding Electric Convertible Bonds are fully converted, the number of shares to be issued will increase to 1,154,617,148 A shares; the total share capital of the Company will increase from 14,725,187,459 shares to 15,879,804,607 shares. The consolidated shareholding of Shanghai Electric (Group) Corporation, the controlling shareholder of the Company, will drop from 60.89% to 56.46%; and

(ii) if the Electric Convertible Bonds were fully converted into A shares of the Company during the reporting period, there would be no material adverse impact on the financial and liquidity conditions of the Company.

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, 7 November 2017, 20 August 2018 and 10 December 2018 and note 43 to the consolidated financial statements contained in this report.

Assets Restructuring and Placing of A shares

During the reporting period, save as the disclosed A share convertible corporate bonds, 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 has earnestly performed its social responsibility. The total expenses of the Group for public welfare projects, charity donations, poverty alleviation donations and education sponsorship in 2018 amounted to RMB1,226,000.

Compliance with relevant laws and regulations

As a public company listed in both Mainland China and Hong Kong, the Company has formulated and continuously improved various rules and regulations in strict compliance with the requirements of relevant laws and regulations and normative documents of China and Hong Kong, including the Company Law of the People's Republic of China, the Code of Corporate Governance for Listed Companies in China, the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to Hong Kong Listing Rules as well as the provisions of the Articles of Association of the Company, to regulate the operations of the Company. The Company is committed to 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, and endeavors to develop circular economy, improve resource utilization efficiency and build up an eco-friendly manufacturing system in pursuit of green development.

The Company has a production safety and environmental protection committee ("the Committee"). The Committee is chaired by the President of the Company and is responsible for the management and operation of the production safety and environmental protection systems of the Group. The Committee members comprise the main responsible persons of the Group's major business divisions 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 business with a focus on environment protection facilities, integrated treatment of pollutants, and comprehensive utilization of resources. So far, the Company has built up its capability in general contracting in respect of power plant environmental facilities, solid waste treatment, sewage treatment, biomass power generation, and environment protection engineering projects.

During the reporting period, the Company has complied with the "Comply or Explain" provision under the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to Hong Kong Listing Rules. The Company will separately prepare the environmental, social and governance report for 2018, which will be separately published within three months after the publication of this report.

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

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

Reserves

Details of the movements in the reserves of the Company and the Group during the year were set out in note 46 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 14 to the financial statements.

Directors' rights 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 any of its subsidiaries or 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 the PRC laws and the Articles of Association, the Company's shareholders have no preemptive rights.

Tax Relief and Exemption

The Board are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

ZHENG JIANHUA
CHAIRMAN OF BOARD AND CHIEF EXECUTIVE OFFICER

Significant Events

The disclosure of the following matter will not, in the Directors' opinion, be harmful to the business of the Company.

Connected Transactions and Continuing Connected Transactions

According to the requirements of the 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 2018 are disclosed in detail as follows:

Connected transactions

On 26 February 2018, the Board considered and approved the resolution for Shanghai Prime Machinery Company Limited (the "Shanghai Prime"), a subsidiary of the Company, to enter into an equity transfer agreement with the controlling shareholder of the Company, Shanghai Electric (Group) Corporation (hereinafter referred to as "SEC"). Pursuant to the equity transfer agreement entered into between both parties, Shanghai Prime agreed to sell and SEC agreed to purchase 100% equity interests in Shanghai Electric Bearing Co., Ltd. (the "Electric Bearing"), a wholly-owned subsidiary of Shanghai Prime, for a total consideration of RMB58,848,620.03. The transaction was completed in the reporting period.

On 29 March 2018, the Board approved the resolution for Shanghai Electric Group Property Company Limited (the "SEC Property"), a wholly-owned subsidiary of the Company, to enter into a real estate acquisition agreement with Shanghai Electric Machine Tools Complete Engineering Co., Ltd. (the "Electric Machine Tools"), a wholly owned subsidiary of SEC. Pursuant to the real estate acquisition agreement, SEC Property agreed to purchase Huai'an Road Property at a total consideration of RMB105 million. The transaction was completed in the reporting period.

On 29 March 2018, the Board considered and approved the resolution for SEC Property to enter into an equity transfer agreement with Schuler AG (a company established in Germany). Pursuant to the equity transfer agreement, SEC Property agrees to purchase, and Schuler AG agrees to sell all its equity interests in Shanghai Schuler Presses Co., Ltd. (the "Shanghai Schuler", Schuler AG and Shanghai Electric Development Co., Ltd (a wholly owned subsidiary of SEC) respectively owned 79.39% and 20.61% of the equity interests in Shanghai Schuler) for a total consideration of RMB198,579,793. Shanghai Schuler became a subsidiary of the Company after the completion of the acquisition. The transaction was completed in the reporting period.

On 30 August 2018, the Board considered and approved the proposed capital increase of Shanghai Electric Investment (Dubai) Limited Company（上海電氣投資（迪拜）有限公司）(hereinafter referred to as "SEI Dubai"), . SEI Dubai is a joint venture set up by Shanghai Electric Group Hongkong Company Limited (hereinafter referred to as "SEC HK") and Shanghai Electric Hongkong Co. Limited (a wholly owned subsidiary of the Company, hereinafter referred to as "Shanghai Electric HK"), and its total registered capital will increase from US$5,000,000 to US$237,305,000 with SEC HK's and Shanghai Electric HK's pro rata contribution in cash. SEC will provide guarantees (the "Guarantees") with the total amount to the extent of US$834,000,000 to facilitate Thar Company's project financing arrangement in relation to the construction of the Power Station. The Company will provide the Counter Guarantee for SEC in proportion to its respective indirect shareholding percentage (20%) in Thar Company to the extent of US$166,800,000 with a term not exceeding 14 years. The Board considered and approved the resolution on the proposed construction of the overseas power station contemplated under (i) the construction contract entered into between Shanghai Electric Engineering Consulting Company Limited (hereinafter referred to as "Electric Engineering", a wholly owned subsidiary of the Company), an indirect wholly-owned subsidiary of the Company, and Thar Company,

pursuant to which Electric Engineering proposed to construct the power station at the consideration of US$408,600,000; and (ii) the supply contract entered into among the Company, Shanghai Electric HK, a wholly owned subsidiary of the Company, and Thar Company, pursuant to which the Company and Shanghai Electric HK proposed to supply relevant equipment for the construction of the power station at the consideration of US$953,400,000. The transaction was completed in the reporting period.

On 22 October 2018, the Board has resolved to participate in the bidding for capital injection in SINOMEC Engineering Group Co., Ltd (the "SINOMEC") through a public tender process to acquire 20% equity interest of SINOMEC at a proposed tender price of no more than RMB1.2 billion. As at the date of the aforementioned announcement, the Company is in the progress of completing the Acquisition of Thvow Technology. As SINOMEC holds more than 10% equity interest in CSEEC which does not fall within the scope of "insignificant subsidiary" under Rule 14A.09 of the Listing Rules, SINOMEC is regarded as a connected person of the Company by virtue of its falling under the definition of a substantial shareholder at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules. The transaction was completed in the reporting period.

On 10 December 2018, the Board considered and approved a resolution, pursuant to which Shanghai Electric International Economic and Trade Ltd.(hereinafter referred to as the "SEIET"), a wholly-owned subsidiary of the Company, was approved to transfer the 100% equity interests it held in SNJ Valve Co., Ltd. (hereinafter referred to as the "SNJ Valve") to SEC at a consideration of RMB199,693,100. SNJ Valve is a wholly-owned subsidiary of SEIET. The transaction was completed in the reporting period.

Continuing Connected Transactions

According to the provisions of the listing rules, the details of the continuing connected transactions between Company and its subsidiaries ("Group") and the connected persons as of 31 December 2018 are set forth below:

Connected Transactions with Shanghai Electric (Group) Corporation

Framework sales agreement

The Company entered into a framework sales agreement with Shanghai Electric (Group) Corporation ("SEC") 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 2018 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 2018 was RMB 367,640,000.

Framework purchase agreement

The Company entered into a framework purchase agreement with SEC 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 2018 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 2018 was RMB 82,570,000.

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 SEC, pursuant to which Finance Company provides deposit and loan services to the Parent Group.

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

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

Framework deposit agreement

On 14 November 2016, Finance Company entered into a framework deposit agreement with SEC in relation to the deposit services for the Parent Group 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 2018 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 2018 did not exceed the approved annual cap of RMB 7,500,000,000. Besides, the Parent Group received interest income of RMB 24,630,000 for the deposits from Finance Company for the year ended 31 December 2018.

Framework loan agreement

On 14 November 2016, Finance Company entered into a framework loan agreement with SEC 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 2018 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 2018 did not exceed the approved annual cap of RMB7,500,000,000. Besides, the Parent Group paid interest of RMB 255,010,000, which was derived from loans and discounted bills, to Finance Company for the year ended 31 December 2018.

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. The above framework purchase and sales agreement expired on 23 January 2012.

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.

In August 2017, 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 14 September 2017 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.

As the Group expects that purchase amounts from the Siemens Group will increase in three years ending 31 December 2020, the Directors believe that the Existing Annual Caps will not be sufficient for the Group's business needs. Therefore, in September 2018, the Board proposed to revise the Existing Annual Caps to RMB2,700 million, RMB2,700 million and RMB2,700 million in respect of the Continuing Connected Transactions for the years ending 31 December 2018, 2019 and 2020, respectively.

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.

- in respect of the purchase transactions where the components and/or technologies are generally available in the market (mainly used in power transmission and distribution equipment), market price, which is determined by reference to the prevailing market rates for similar or the same components and/or technologies available on an arm's length basis from independent third parties, shall be considered for the consideration of the Continuing Connected Transactions to be determined. The marketing departments of the relevant subsidiaries of the Company have been obtaining and will continue to obtain price quotations from suppliers in the market (including both independent suppliers and Siemens) once the relevant subsidiaries receive orders from the customers and will choose the supplier who provides the most favourable terms (especially the lowest price per unit of the same quality). The marketing department of the relevant subsidiaries will compare the price quotations from Siemens with at least two price quotations from independent suppliers before making the commercial decision. The internal control department of the relevant subsidiaries has conducted and will continue to conduct annual review to make sure the abovementioned procedure has been complied with throughout the year. During the past three years, the Company has purchased the same products provided by the Siemens Group from more than two independent suppliers every year and expects to stick to such practice if there is no material change to the current market conditions. With the access to the independent suppliers in the market from time to time, the Company has the opportunity to learn the market conditions on a timely basis and make an informed commercial decision; and
- in respect of the purchase transactions where the components and/or technologies can only be provided by the Siemens Group due to its unique technology (mainly used in power equipment) while similar components and/or technologies provided by other suppliers currently do not match well with the Company's certain power equipment which renders the contemporaneous quotations from independent third parties not available, the Group may refer to (i) prices of relevant transactions for the last year, (ii) market trend of the prices for similar components and/or technologies domestically and internationally, which has been and will be assessed by the marketing department of the relevant subsidiaries based on the public information in the fourth quarter of every year and (iii) business plan of the Group, and negotiate with the Siemens Group in good faith. With the historical purchase price as a benchmark price and the roughly estimated percentage of the increase or decrease of the market prices for similar components and/or technologies domestically and internationally, the Company should be able to assess the fairness and reasonableness of price quotations from the Siemens Group and make an informed commercial decision based on the market information to the largest extent possible.

The actual purchase from the Siemens Group for the year ended 31 December 2018 was RMB 1,640,750,000.

Framework purchase agreement with Mitsubishi Electric

Mitsubishi Electric Corporation ("Mitsubishi Electric") holds more than 10% of the equity interest in Shanghai Mitsubishi Elevator Co., Ltd. ("SMEC"), being a subsidiary of the Company. Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. ("MESMEE") is held as to 40% by Shanghai Mechanical & Electrical Industry Co., Ltd., a 47.83% 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. On 14 November 2016, the Board (including the independent non-executive Directors) approved the MESMEE Framework Purchase Agreement and transactions contemplated under the MESMEE Framework Purchase Agreement and the independent non-executive directors confirmed that the terms of the transactions are on normal commercial terms, fair and reasonable, and in the interests of the Company and its shareholders as a whole.

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 2018 were RMB 2,796,150,000.

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.

In July 2017, 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 would be required to enter into a written framework agreement with SGSMEPC in respect of the Continuing Connected Transactions. The waiver has been conditionally granted by the Stock Exchange on 9 August 2017 and was approved by the Board on 30 October 2017.

The approved annual caps for the three years ended 31 December 2020 were RMB 4,600,000,000, RMB 4,900,000,000 and RMB 5,100,000,000.

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 4,552,070,000 for the year ended 31 December 2018.

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.

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 53 to the annual financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

Other major events

On 14 November 2017, the 57th meeting of the fourth session of the Board of the Company considered and approved the resolution on the Company's complying with the conditions for public issuance of the 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 CSRC. Due to significant interest rate fluctuation in capital markets and for reasonable control over financing costs of the Company, the Company decided to cancel the issuance of exchangeable corporate bonds upon consideration and approval by the Directors at the 72th meeting of the fourth session of the Board on 30 August 2018.

On 6 June 2018, the Company entered into the Framework Agreement on the Acquisition of Equity Interest of Jiangsu Zhongneng Polysilicon Technology Development Co., Ltd.* (江蘇中能硅業科技發展有限公司) with GCL-Poly Energy Holdings Limited (保利協鑫能源控股有限公司) (hereinafter referred to as "GCL-Poly Energy"). The proposed acquisition of 51% equity interest of Jiangsu Zhongneng Polysilicon Technology Development Co., Ltd. ("Jiangsu Zhongneng"), a subsidiary of GCL-Poly Energy, was to be conducted through consideration issue of A shares and cash payment by the Company. On 4 August 2018, in view of the huge size of the target company and considering that the asset boundary of the underlying company involved in the transaction was not finalized and the transaction plan was so complex that both parties to the transaction did not reach a consensus on the relevant cooperation terms and the transaction plan, the Company decided to terminate the plan for the issuance of shares and purchasing assets.

In 2018, the Company and Shanghai Electric Rongchuang Financial Leasing Co., Ltd. (上海電氣融創融資租賃有限公司) (hereinafter referred to as "Electric Leasing") filed a pleading with Shanghai High People's Court. The Company and Electric Leasing have received a notice of acceptance from Shanghai High People's Court in January 2018. The basic information of the litigations includes: 1. The Company applied to the court for a ruling that Wang Zhijun, as the first defendant, and Guan Hongyan, as the second defendant, (hereinafter referred to as "Defendants") pay arrearages of RMB848,209,829.37 and the interests on delayed payment of RMB108,809,400, in aggregate RMB957,019,229.37, and applied to the court for a ruling that the court acceptance fee, attorney fee, preservation guarantee expenses and other litigation costs be borne by the Defendants. 2. Electric Leasing applied to the court for a ruling that Xinjiang Jiarun Resources Holdings Co. Ltd. (新疆嘉潤資源控股有限公司) (hereinafter referred to as "Jiarun Company"), as the first defendant, pays Electric Leasing all rentals due but unpaid as well as rentals not yet due in the aggregate amount of RMB746,535,167.04 under the Financial Leasing Contract, penalty for breach of contract of RMB92,533,000.00, penalty for delayed performance of RMB58,905,556.77 and residual value transfer fee of RMB10,000, and Qingdao Antaixin Group Co. Ltd. (青島安泰信集團有限公司) (hereinafter referred to as "Antaixin Company") , as the second defendant, and Wang Zhijun, as the third defendant, assume joint liability of guarantee for the aforementioned payments; that Electric Leasing be entitled to auction or sell the collaterals provided by Qingdao Shengshi Jiaye Business Development Co., Ltd.(青島盛世嘉業商業發展有限公司) (hereinafter referred to as "Shengshi Jiaye"), as the fourth defendant, under the Pledge Contract to the extent of the aforementioned scope of claim with priority of compensation; and that Jiarun Company, Antaixin Company, Wang Zhijun and Shengshi Jiaye jointly bear the court acceptance fee, attorney fee, preservation guarantee expenses and other litigation costs of the case.

Material events after the period

On 22 January 2019, the Board considered and approved the Relevant Resolution, pursuant to which the Company or Electric Finance, a subsidiary of the Company, will provide a loan in an amount of not more than RMB1 billion to SINOMEC for a term of one year provided that SINOMEC or a third party shall provide guarantee in a sufficient amount in line with requirements. The interest rate shall not be lower than 10% above the interest rate available to the Company for its capital obtained from banks. The resulting costs of value-added tax and income tax are to be borne by SINOMEC. Electric Finance has entered into the relevant agreements with SINOMEC in January and March 2019 respectively, and agreed to provide a working capital loan to SINOMEC in an amount of RMB1 billion for a term of one year, with an interest rate of 5.85%.

As at 22 March 2019, the Board considered and approved the relevant resolution, pursuant to which Thvow Technology, a subsidiary of the Company, entered into the Framework Purchase Agreement with SINOMEC, the approved annual cap of purchases for the year was RMB500 million with a term of one year. The consideration of each of the continuing connected transactions under the aforementioned Framework Purchase Agreement is and will continue to be determined in accordance with the following pricing policies: (i) the pricing basis will be made with reference to market price of the products as applicable. Such market price is determined by reference to the prevailing market prices for similar or the same equipment or raw materials available on an arm's length basis from independent third parties. The marketing departments of Thvow Technology have been obtaining and will continue to obtain price quotations from suppliers in the market (including both independent suppliers and SINOMEC) and will choose the supplier who provides the most favourable terms (especially the lowest price per unit of the same quality). The marketing department of Thvow Technology will compare the price quotations from SINOMEC with at least two price quotations from independent suppliers before making the commercial decision ; (ii) when there are no market prices, Thvow Technology will seek a reasonable price by comparing the quotations from different suppliers and nail down the agreed price on normal commercial terms with SINOMEC. The senior management of Thvow Technology will review the pricing of transactions under the Framework Purchase Agreement and compare the terms of agreements entered into between Thvow Technology and independent third parties in relation to the purchases of the products with similar specifications to ensure that the prices and terms offered by SINOMEC is no less favourable to Thvow Technology than those offered by independent third parties. In addition, the internal control department of Thvow Technology will conduct annual review to make sure the abovementioned procedure has been complied with throughout the year.

As at 22 March 2019, the Board considered and approved the relevant resolution, pursuant to which Thvow Technology, a subsidiary of the Company, entered into the Framework Sales Agreement with SINOMEC, the approved annual cap of sales for the year was RMB250 million with a term of one year. Pursuant to the Framework Sales Agreement, prices of products and services to be provided to SINOMEC by Thvow Technology will be determined principally by arm's length commercial negotiations with reference to the market price and the historical transaction price by taking into account the actual cost plus a reasonable profit margin. Thvow Technology has taken sufficient internal control measures to ensure that the gross profit margin from sales of products and services to SINOMEC will be no less than that from sales of similar products and services to independent third parties. The senior management of Thvow Technology will review the pricing of transactions under the Framework Sales Agreement and compare the terms of agreements entered into between Thvow Technology and independent third parties with the terms of the Framework Sales Agreement in relation to sales of similar products or services to ensure that the price and terms offered to SINOMEC is no more favourable than those offered to independent third parties. In addition, the internal control department of Thvow Technology will conduct annual review to make sure the abovementioned procedure has been complied with throughout the year.

Appointment, removal and remuneration of auditors

Particulars of change in auditors in the preceding three years	2018	2017	2016
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

Services provided by auditors

Unit: '000; Currency: RMB

	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	5 Years
Annual audit for the Company	12,379
Statutory audit for subsidiaries	13,201
Total	25,580

	Firm Name	Remuneration
Auditors for Internal controls review	PricewaterhouseCoopers Zhong Tian LLP	2,250

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 82 to 245, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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
- Impairment assessment on goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Revenue Recognition	
Referring to note 2.28, and note 6 to the consolidated financial statements. When the customers gain control over the relevant goods or services, the Group recognises the revenue in accordance with the amount of consideration which the Group expects to be entitled to receive. In 2018, revenue of the Group amounted to RMB101,158 million, of which approximately 78.1% was resulted from sales of goods and approximately 11.7% was resulted from construction services. We focused on revenue recognition relating to sales of goods and construction services. The focus on the revenue from sales of goods is due to its huge volume. The amount of sales of goods recognised has a significant impact on the consolidated financial statements.	For sales of goods, we gained an understanding, evaluated the design and tested the operating effectiveness of the key controls in respect of the Group's sales transactions from order approval to sales recording. We discussed with management and understood the revenue recognition policy for sales of goods of the Group. We analysed and evaluated the point of time when control transfer, using sampling techniques by inspection of sales contracts. Furthermore, we tested revenue from sales of goods using sampling techniques by performing the procedures below: • examined the relevant supporting documents, including customer orders, sales contracts, goods delivery notes, customers' acceptance notes, invoices, 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 relating to construction services, we 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 compared the actual cost of the completed projects to management's prior estimation, using sampling techniques, to assess management's historical accuracy on the estimation.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Revenue Recognition (Continued)	
The focus on the revenue relating to construction services is due to the significant estimations and judgements involved. The Group uses percentage of completion method to account for the revenue from construction services 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 services revenue and cost calculation analyses, agreed the total amount to the sales and cost of sales ledger, and checked the mathematical accuracy of the calculation. We tested the costs incurred using the sampling techniques by performing the following procedures: • examined 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 costs using sampling techniques by performing the following procedures: • checked the components of the estimated total costs to the supporting documents including the purchase contracts, etc., to identify any missed cost components. • assessed the reasonableness of the estimated total costs 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 services were supported by available evidences.
2. Provision for Onerous Contracts	
Referring to note 2.27 and note 42 to the consolidated financial statements. Macroeconomic factors, 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 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 2018, the amount of provision for onerous contracts charged to the income statement was RMB845 million. We focused on this area due to the significant estimations and judgements involved in the estimation of the unavoidable costs to complete the contracts.	We 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 components 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 estimated 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 evidences.

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, note 2.19, note 19, note 20 and note 30 to the consolidated financial statements. As at 31 December 2018, the net carrying amount of trade receivables of the Group was RMB21,566 million, after netting off the accumulated provisions for impairment RMB6,821 million. The Group provided impairment of trade receivables based on the expected credit loss during lifetime. For the trade receivables with objective evidence of impairment, and other trade receivables subject to separate assessment for impairment provision, an impairment test is conducted to calculate the expected credit loss and to provide an individual impairment allowance. For the trade receivables without objective evidence of impairment or the expected credit loss cannot be estimated for an individual financial asset at a reasonable cost, the Group grouped trade receivables in accordance with credit risk characteristics and calculated the expected credit loss based on groups. For the trade receivable in groups, the Group referred to the experience of historical credit losses, combined with current situation and forecast of the economic situation in the future, and prepared the model which refers to the days overdue and rate of the expected credit loss during lifetime, in order to calculate the expected credit loss.	We gained an understanding 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 and its determination of impairment provision. We performed the following procedures on assessing expected credit loss of trade receivables : • understood, and obtained management's assessment of the collectability of receivable subject to separate assessment for impairment provision, by considering both current situation and economic situation in the future, and corroborated management's assessment against available evidences, including interviewing with sales personnel, examining the correspondences with the relevant customers, inquiring the Group's internal legal counsel as to the existence of disputes with customers and inspecting the subsequent receipts on a sample basis; • for the model used by management to calculate expected credit losses in groups: - evaluated the rationality of method in model used to calculate the expected credit loss; - tested the accuracy of the historical credit default data in the model, on a sample basis, to assess the rate of historical default loss; - evaluated the rationality of management's adjustment on forward looking factors based on our understanding of the client's industry and with reference to external data sources, as well as conducted sensitivity analysis on forward looking factors; - tested the accuracy of the aging of trade receivables on a sample basis; - recalculated expected credit loss after incorporation of the consideration of the rate of default loss adjusted by forward looking factors.

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 2018, the net carrying amounts of Group's loan receivables and lease receivables were RMB6,379 million and RMB9,370 million, respectively, after netting off accumulated allowance for impairment losses of RMB382 million and RMB910 million, respectively. The Group uses three-stage impairment model to calculate expected credit loss by assessing if the credit risk has significantly increased since initial recognition for loan receivables and lease receivables. The major managerial judgments and assumptions involved in the measurement of expected credit loss mainly include: (1) selecting appropriate models to measure expected credit loss and grouping businesses with similar credit risk characteristics into one portfolio; (2) criterion of the significant increase of credit risk and the occurrence of default credit impairment; (3) economic index, economic scenarios and the weight used in forward looking measurement, as well as the future cash flow forecast for separate assessment of the loan receivables and lease receivables in the third stage. We considered impairment provision of trade receivables, loan receivables and lease receivables a key audit matter since the Group's measurement of expected credit loss involves complexed model, significant managerial judgements and assumptions.	We performed the following procedures on impairment provision of loan receivables and lease receivables: • evaluated the rationality of method in model used to calculate the expected credit loss, as well as the group division, selection of the model, the key parameters involved in significant estimations and judgements with the assistance of the experts in expected credit loss model; • used sampling techniques, based on the financial and non-financial information of the lessees or borrowers, other external evidence and considerations, to assess reasonableness of the classification of three stages; • used sampling techniques to inspect critical data used in model to calculate the expected credit loss, including historical data and data on the measurement date to assess accuracy and completeness; used sampling techniques to inspect and assess the reasonableness of the discounted cash flow used by management for separate assessment of impairment for the loan receivables and lease receivables in the third stage; • evaluated the rationality of management's adjustment on forward looking factors with the assistance of the experts in expected credit loss model and conducted sensitivity analysis on forward looking factors. Based on the work we performed, we found that management's judgements on assessment of impairment provision of trade receivables, loan receivables and lease receivables provision were supported by the available evidences.

Key Audit Matter	How our audit addressed the Key Audit Matter
4. Impairment assessment on goodwill	
Referring to note 2.10(a) and note 17 to the consolidated financial statements. As at 31 December 2018, the net carrying amount of goodwill of the Group was RMB3,399 million, after netting off impairment for goodwill of RMB309 million. In 2018, the amount of impairment for goodwill charged to the income statement was RMB152 million. The Group recognised the corresponding impairment based on the excess of the book value over the recoverable amount for assets group or assets group portfolio. The key assumptions involved in assessing the recoverable amount include growth rate of turnover, gross margin rate and discount rate, etc. We considered impairment assessment on goodwill a key audit matter since the test of goodwill impairment involves complexed and significant judgments.	We gained an understanding and evaluated the design and tested the operating effectiveness of management's key controls in respect of impairment assessment on goodwill prepared by the management, including the review and approval of the key assumptions and the impairment allowance. In respective of the calculation of the recoverable amount of goodwill, we performed the following procedures: • Compared and analysed the actual financial results of the relevant asset groups during current year to the respective forecast in previous year to evaluate the historical accuracy of management's prediction of future cash flows; • Obtained the management's calculation schedule of goodwill impairment and evaluated the method of discounted cash flow and the discount rate used in the discounted cash flow by reference to the practice in the same industry with the assistance of internal valuation experts; • Compared growth rate of turnover, gross margin rate in goodwill impairment model to the historical data in consideration of the overall operation of the asset groups, as well as the impact of market trends; • Conducted sensitivity analysis on key parameters used in future cash flow forecasts of the asset groups. Based on the work we performed, we noted that the estimations and judgements applied in impairment assessment on goodwill were supported by available evidences.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors of the Company are responsible for the preparation of 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 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	101,157,525	79,543,794
Cost of sales	8	(82,707,754)	(63,701,557)
Gross profit		18,449,771	15,842,237
Other income	7	1,375,023	683,383
Other gains, net	7	390,451	1,656,244
Other income and other gains - net	7	1,765,474	2,339,627
Distribution costs	8	(2,759,312)	(2,254,100)
Administrative expenses	8	(10,818,664)	(11,446,749)
Net impairment losses on financial and contract assets	3.1(b)	(355,736)	—
Operating profit		6,281,533	4,481,015
Finance income	10	213,893	198,847
Finance costs	10	(1,153,456)	(657,105)
Finance costs - net	10	(939,563)	(458,258)
Share of net profits of investments accounted for using the equity method :			
Joint ventures	23	(167,798)	570,118
Associates	24	833,944	772,374
Profit before income tax		6,008,116	5,365,249
Income tax expense	11	(676,865)	(522,422)
Profit for the year		5,331,251	4,842,827
Profit is attributable to:			
Owners of the Company	12	2,980,460	2,626,668
Non-controlling interests		2,350,791	2,216,159
		5,331,251	4,842,827
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY (expressed in RMB per share)			
Basic earnings per share	12	20.24 cents	18.72 cents
Diluted earnings per share	12	20.07 cents	18.72 cents

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit for the year	5,331,251	4,842,827
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)
Changes in the fair value of debt instruments at fair value through other comprehensive income	(32,093)	—
Changes in the fair value of trade receivables at fair value through other comprehensive income	(101,909)	—
Cash flow hedges	(10,414)	29,730
Exchange differences on translation of foreign operations	(22,382)	(45,614)
Overseas net investment hedging	20,262	-
	(146,536)	(1,167,415)
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit obligations	620	4,042
Other comprehensive income for the year, net of tax	(145,916)	(1,163,373)
Total comprehensive income for the year	5,185,335	3,679,454
Attributable to:		
– Owners of the Company	2,899,714	1,598,416
– Non-controlling interests	2,285,621	2,081,038
	5,185,335	3,679,454

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	14	16,179,074	16,468,912
Investment properties	15	814,069	832,508
Prepaid land lease payments	16	5,870,721	5,828,581
Goodwill	17	3,398,942	2,648,897
Intangible assets	18	2,933,962	1,393,008
Investments in joint ventures	23	4,957,373	4,395,635
Investments in associates	24	8,606,062	6,309,326
Available-for-sale investments	20	—	1,393,811
Deferred tax assets	25	4,801,223	3,982,674
Contract assets	6	8,133,980	—
Financial assets at fair value through other comprehensive income	20	261,372	—
Financial assets at amortised cost	19	5,196,141	—
Financial assets at fair value through profit or loss	28	5,360,846	—
Loans and lease receivables	19	—	7,399,416
Other non-current assets	26	280,153	4,335,730
Total non-current assets		66,793,918	54,988,498
Current assets			
Inventories	27	27,929,297	29,057,351
Construction contracts	29	—	5,416,449
Contract assets	6	12,229,782	—
Financial assets at fair value through other comprehensive income	20	9,117,488	—
Financial assets at amortised cost	19	12,879,108	—
Financial assets at fair value through profit or loss	28	4,419,450	—
Trade receivables	30	18,840,593	27,905,847
Loans and lease receivables	19	—	10,956,118
Discounted bills receivable	31	317,917	179,926
Bills receivable	32	5,485,044	10,106,004
Prepayments, deposits and other receivables	33	18,032,675	12,170,116
Investments	34	—	11,325,754
Derivative financial instruments	21	788	15,604
Due from the Central Bank*	36	2,577,728	3,267,497
Restricted deposits	36	702,980	565,322
Time deposits with original maturity over three months	36	7,352,953	10,922,202
Cash and cash equivalents	36	31,842,144	22,469,071
Total current assets		151,727,947	144,357,261
Total assets		218,521,865	199,345,759

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2018

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Equity and liabilities			
Liabilities			
Non-current liabilities			
Bonds	43	12,749,245	10,058,027
Bank and other borrowings	41	9,588,836	4,144,184
Provisions	42	281,167	243,817
Government grants	38	1,004,508	1,055,960
Other non-current liabilities	44	1,009,326	1,464,926
Deferred income tax liabilities	25	628,895	337,530
Total non-current liabilities		25,261,977	17,304,444
Current liabilities			
Bonds	43	-	1,599,506
Trade payables	37	38,880,814	33,740,212
Contract liabilities	6	36,566,071	—
Financial liabilities at fair value through profit or loss	35	104,540	—
Bills payable	37	6,387,498	7,144,728
Government grants	38	414,545	439,973
Other payables and accruals	39	17,165,670	56,627,701
Derivative financial instruments	21	5,168	8,537
Customer deposits	40	4,431,761	3,324,568
Bank and other borrowings	41	10,351,116	3,224,101
Taxes payable		1,183,926	1,201,062
Provisions	42	4,132,159	4,009,340
Total current liabilities		119,623,268	111,319,728
Total liabilities		144,885,245	128,624,172

CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2018

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Equity			
Equity attributable to owners of the Company			
Share capital	45	14,725,188	14,725,181
Reserves	46	20,726,678	20,637,494
Retained earnings		21,838,330	20,174,408
		57,290,196	55,537,083
Non-controlling interests		16,346,424	15,184,504
Total equity		73,636,620	70,721,587
Total equity and liabilities		218,521,865	199,345,759

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 82 to 245 were approved by the Board of Directors on 29 March 2019 and were signed on its behalf.

Mr. Zheng Jianhua	Mr. Huang Ou
Chairman and CEO	Executive Director and President

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

		Attributable to owners of the Company										
	Note	Share capital RMB'000	Capital reserve RMB'000	Surplus reserves RMB'000	Defined benefit plans reserve RMB'000	Hedging reserve RMB'000	FVOCI 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 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
Change in accounting policies	2.1.3	-	-	(32,253)	-	-	(4,427)	-	498,150	461,470	(10,592)	450,878
Balance at 1 January 2018		14,725,181	17,553,804	3,161,001	3,816	27,517	9,399	(154,723)	20,672,558	55,998,553	15,173,912	71,172,465
Profit for the year		-	-	-	-	-	-	-	2,980,460	2,980,460	2,350,791	5,331,251
Other comprehensive income:												
Remearsurement of defined benefit plans		-	-	-	341	-	-	-	-	341	279	620
FVOCI reserve		-	-	-	-	-	(69,006)	-	-	(69,006)	(64,996)	(134,002)
Cash flow hedges, net of tax		-	-	-	-	(9,831)	-	-	-	(9,831)	(583)	(10,414)
Currency translation differences		-	-	-	-	-	-	(22,512)	-	(22,512)	130	(22,382)
Overseas net investment hedging, net of tax		-	-	-	-	20,262	-	-	-	20,262	-	20,262
Total comprehensive income		-	-	-	341	10,431	(69,006)	(22,512)	2,980,460	2,899,714	2,285,621	5,185,335
Convertible bond - equity component		7	24	-	-	-	-	-	-	31	-	31
Disposal of subsidiaries		-	2,083	-	-	-	-	-	-	2,083	2,332	4,415
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	(1,352,780)	(1,352,780)
Dividend paid to shareholders		-	-	-	-	-	-	-	(1,353,980)	(1,353,980)	-	(1,353,980)
Absorption of non-controlling interests' investment		-	-	-	-	-	-	-	-	-	247,235	247,235
Withdrawal of non-controlling interests		-	-	-	-	-	-	-	-	-	(9,302)	(9,302)
Appropriation to general risk reserve		-	-	44,201	-	-	-	-	(44,201)	-	-	-
Transfer from retained earnings		-	-	140,225	-	-	-	-	(140,225)	-	-	-
Transfer of loss on disposal of equity investments at fair value through other comprehensive income to retained earnings		-	-	-	-	-	-	-	(276,282)	(276,282)	-	(276,282)
Others		-	20,077	-	-	-	-	-	-	20,077	(594)	19,483
At 31 December 2018		14,725,188	17,575,988	3,345,427	4,157	37,948	(59,607)	(177,235)	21,838,330	57,290,196	16,346,424	73,636,620

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

		Attributable to owners of the Company										
	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 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		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		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

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December	
		2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash inflow/(outflow) from operations	47	2,221,004	(6,379,173)
Income taxes paid		(1,271,700)	(1,145,844)
Net cash inflow/(outflow) from operating activities		949,304	(7,525,017)
Cash flows from investing activities			
Dividends from joint ventures		265,934	160,941
Dividends from associates		781,803	593,403
Dividends from other investments		16,546	133,788
Payments for property, plant and equipment		(3,099,564)	(2,767,372)
Payments for investment properties		(34,916)	(75,290)
Realised fair value gains on financial assets at fair value through profit or loss		(72,955)	(14,698)
Payments for land lease		(39,675)	(121,132)
Proceeds from sales of property, plant and equipment		246,531	763,128
Proceeds from sales of subsidiaries		229,384	27,761
Payment for acquisition of subsidiaries, net of cash acquired	51	(1,429,533)	(77,927)
Capital injection in joint ventures		(975,407)	-
Capital injection in associates		(2,285,558)	(634,090)
Proceeds from disposal of associates		74,987	51,978
Proceeds from disposal of joint ventures		199	-
Increase in other non-current investments		(3,552,660)	(1,422,886)
Payments for other intangible assets		(189,994)	(42,837)
Proceeds from disposal of other intangible assets		25,228	10,594
Proceeds from disposal of prepaid land lease payments		103,706	208,032
Payment for acquisition of other non-current assets		(105,901)	(160,432)
(Increase)/Decrease in restricted deposits		(137,659)	236,122
Decrease/(Increase) in non-restricted time deposits with original maturity of over three months when acquired		3,569,249	(1,201,219)
Decrease/(Increase) in an amount due from the Central Bank		689,769	(70,128)
Increase in short-term investments		(175,794)	(5,665,106)
Others		3,288,995	5,739,943
Net cash outflow from investing activities		(2,807,285)	(4,327,427)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Cash flows from financing activities		
Capital injection by non-controlling interests	195,836	-
Proceeds from issues of shares and other equity securities	-	3,286,897
Proceeds from bank and other borrowings	24,784,874	4,720,350
Repayments of bank and other borrowings	(12,166,278)	(3,338,501)
Issue of bonds	2,472,500	-
Repayment of bonds	(1,600,000)	(525,400)
Dividends paid to non-controlling interests	(1,352,780)	(1,466,268)
Dividends paid by the Company	(1,353,980)	-
Others	166,994	520,603
Net cash inflow from financing activities	11,147,166	3,197,681
Net increase/(decrease) in cash and cash equivalents	9,289,185	(8,654,763)
Cash and cash equivalents at beginning of year	22,469,071	31,196,279
Effect of exchange rate changes on cash and cash equivalents, net	83,888	(72,445)
Cash and cash equivalents at end of year	31,842,144	22,469,071

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 ("SEC"), 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 the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets which are measured 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 2018

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 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Amendments to HKFRS 2 - Classification and Measurement of Share-based Payment Transactions
- Amendments to HKFRS 4 - Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
- Annual Improvements 2014 - 2016 Cycle
- Amendments to HKAS 40 - Transfers of Investment Property, and
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

The impact of the adoption of HKFRS 9 'Financial Instruments' and HKFRS 15 'Revenue from Contracts with Customers' is disclosed in note 2.1.3 below. The other standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

(b) Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HKFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendment to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments improvement to HKFRSs	Annual improvements to HKFRS standards 2015-2017 cycle	1 January 2019
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Amendment definition of material	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and position of the Group is expected when they become effective except those set out below:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 New accounting policy and disclosure requirement (continued)

(b) Impact of standards issued but not yet applied by the Group (continued)

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, 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.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB639,527,000. Of these commitments, approximately RMB78,708,000 relate to short-term leases and RMB35,000 to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB471,643,000 on 1 January 2019, lease liabilities of RMB495,877,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) and deferred tax assets of RMB6,059,000.

Unlike the previous HKAS 17 standard, under which all operating lease expenses were reported under operating profit, the only items allocated to operating profit under HKFRS 16 are depreciation charges on right-of-use assets. Interest expense from adding interest on lease liabilities is reported in finance costs. Based on leases in place as of 1 January 2019, current estimates by the Group indicate that there is no significant impact on the operating profit.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All the right-of-use assets will be measured on transition as if the new rules had always been applied.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(A) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 2.1.3(B) below, HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables set out the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The relevant adjustments are explained in more detail by standard below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(A) Impact on the financial statements (continued)

Balance sheet (extract)	31 December 2017 As originally presented RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 Restated RMB'000
Non-current assets				
Deferred tax assets	3,982,674	-	183,119	4,165,793
Other non-current assets	42,212,597	(1,879,073)	(276,984)	40,056,540
Financial assets at fair value through other comprehensive income (FVOCI)	-	-	174,247	174,247
Financial assets at fair value through profit or loss (FVPL)	-	-	2,285,230	2,285,230
Receivables/ Financial assets at amortised cost	-	-	276,984	276,984
Contract assets	-	1,879,073	-	1,879,073
Available-for-sale financial assets	1,393,811	-	(1,393,811)	-
Loans and lease receivables / Financial assets at amortised cost	7,399,416	-	(67,549)	7,331,867
Current assets				
Other current assets	48,167,185	-	(11,701,527)	36,465,658
Inventories	29,057,351	(1,678,377)	-	27,378,974
Construction contracts	5,416,449	(5,416,449)	-	-
Trade receivables	27,905,847	(8,506,027)	(172,758)	19,227,062
Contract assets	-	15,600,853	(217,065)	15,383,788
Financial assets at FVPL	-	-	1,824,228	1,824,228
Financial assets at FVOCI	-	-	8,721,250	8,721,250
Investment	11,325,754	-	(11,325,754)	-
Financial assets at amortised cost	-	-	12,481,803	12,481,803
Derivative financial instruments	15,604	-	-	15,604
Cash and cash equivalents	22,469,071	-	-	22,469,071
Total assets	199,345,759	-	791,413	200,137,172
Non-current liabilities				
Deferred tax liabilities	337,530	-	340,535	678,065
Other non-current liabilities	16,966,914	-	-	16,966,914
Current liabilities				
Other payables and accruals	56,627,701	(43,650,082)	-	12,977,619
Contract liabilities	-	43,650,082	-	43,650,082
Derivative financial instruments	8,537	-	-	8,537
Provisions	4,009,340	-	-	4,009,340
Other current liabilities	50,674,150	-	-	50,674,150
Total liabilities	128,624,172	-	340,535	128,964,707
Net assets	70,721,587	-	450,878	71,172,465
Share capital	14,725,181	-	-	14,725,181
Reserves	20,637,494	-	(36,680)	20,600,814
Retained earnings	20,174,408	-	498,150	20,672,558
Non-controlling interests	15,184,504	-	(10,592)	15,173,912
Total equity	70,721,587	-	450,878	71,172,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(B) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2.13 below. In accordance with the transitional provisions in HKFRS 9 (Paragraph 7.2.15) and (Paragraph 7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Notes	RMB'000
Closing retained earnings 31 December 2017 - HKAS 39/HKAS 18		20,174,408
Reclassify investments from available-for-sale to FVPL	(i)	1,070,093
Increase in deferred tax liabilities relating to reclassify investments	(i)	(340,535)
Increase in deferred tax assets relating to reclassify investments	(i)	73,306
Increase in non-controlling interests relating to reclassify investments	(i)	(10,875)
Increase in provision for trade receivables, contract assets and lease receivables	(ii)	(457,372)
Decrease in non-controlling interests relating to impairment provisions	(ii)	21,467
Transfer from statutory surplus reserve fund		32,253
Increase in deferred tax assets relating to impairment provisions	(ii)	109,813
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018		498,150
Opening retained earnings 1 January 2018 - HKFRS 9 (before restatement for HKFRS 15)		20,672,558

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(B) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	Notes	FVPL RMB'000	FVOCI RMB'000	Amortised cost RMB'000	Investment and Available-for-sale investments RMB'000	Other assets RMB'000
Closing balance 31 December 2017 – HKAS 39		-	-	-	12,719,565	11,978,511
Reclassify investments from available-for-sale to FVPL	(a)	4,109,458	-	-	(3,043,792)	-
Reclassify debt instruments and part of trade receivables and bills receivable from available-for-sale and trade receivables and bills receivable to FVOCI	(b)	-	8,895,497	-	(8,178,643)	(716,854)
Reclassify loans and lease receivables and reverse repurchase agreements from financial assets to amortised cost	(c)	-	-	12,758,787	(1,497,130)	(11,261,657)
Opening balance 1 January 2018 - HKFRS 9		4,109,458	8,895,497	12,758,787	-	-

	Notes	Effect on AFS reserves RMB'000	Effect on FVOCI reserve RMB'000	Effect on retained earnings* RMB'000
Opening balance – HKAS 39		13,826	-	20,174,408
Reclassify investments from available-for-sale to FVPL	(a)	(4,427)	-	791,989
Reclassify debt instruments from available-for-sale to FVOCI	(b)	(9,399)	9,399	-
Total impact		(13,826)	9,399	791,989
Opening balance - HKFRS 9		-	9,399	20,966,397

* Before adjustment for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(B) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement (continued)

(a) Reclassification from available-for-sale to FVPL

Certain investments were reclassified from Available-for-sale investments and Investments to financial assets at FVPL (RMB3,043,792,000 as at 1 January 2018). These investments were held for trading or had not elected to recognise fair value gains and losses through OCI.

Related fair value gains of RMB1,070,093,000 were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

(b) Available-for-sale debt instruments and part of bills receivable classified as FVOCI

Debt instruments and part of bills receivable were reclassified from Available-for-sale investments and Bills receivable to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, debt instruments with a fair value of RMB8,895,497,000 were reclassified from Available-for-sale investments and Other Assets to financial assets at FVOCI and fair value gains of RMB9,399,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

(c) Reclassify loans and lease receivables and reverse repurchase agreements from financial assets to amortised cost

Loans and lease receivables and reverse repurchase agreements are required to be held as amortised cost under HKFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(B) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Classification and measurement (continued)

(d) Reclassifications of financial instruments on adoption of HKFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (HKAS 39)	**New (HKFRS 9)**	**Original RMB'000**	**New RMB'000**	**Difference* RMB'000**
Non-current financial assets					
Debt instrument					
-Debt investments	FVOCI	FVOCI	174,247	174,247	-
-Investment products	FVPL	FVPL	51,930	51,930	-
-Investment funds	FVPL	FVPL	22,186	22,186	-
-Loans and lease receivables	Amortised cost	Amortised cost	7,399,416	7,331,867	(67,549)
			7,647,779	7,580,230	(67,549)
Equity Investment					
-Available-for-sale (unlisted)	FVOCI	FVPL	752,911	752,911	-
-Available-for-sale (listed)	FVPL	FVPL	392,537	392,537	-
			1,145,448	1,145,448	-
Current financial assets					
Debt instrument					
-Debt investments	FVPL	FVPL	21,401	21,401	-
-Investment funds	FVPL	FVPL	477,402	477,402	-
-Investment products	FVPL	FVPL	456,086	456,086	-
-Debt investments	FVOCI	FVOCI	8,004,396	8,004,396	-
-Derative financial assets	FVPL	FVPL	441,633	441,633	-
-Trade, bills and other financial assets	Amortised cost	Amortised cost	41,601,724	41,428,966	(172,758)
-Bills receivable	Amortised cost	FVOCI	716,854	716,854	-
			51,719,496	51,546,738	(172,758)
Equity Investment					
-Other equity investment	FVPL	FVPL	427,706	427,706	-
Reverse repurchase agreements	Amortised cost	Amortised cost	1,497,130	1,497,130	-

* The differences noted in this column are the result of applying the new expected credit loss model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(B) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(ii) Impairment of financial assets

The Group has three major types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of inventory and construction services
- contract assets relating to construction services, and
- loans and lease receivables.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 2.1.3(B) above.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 3 years past due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(C) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The adoption of HKFRS 15 did not result in any material transition effects on the Group's Retained Earnings as at 1 January 2018. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

		HKAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	HKFRS 15 carrying amount 1 January 2018 RMB'000
Inventories	(i)	29,057,351	(1,678,377)	27,378,974
Construction contracts	(i)	5,416,449	(5,416,449)	-
Trade receivables	(i)	27,905,847	(8,506,027)	19,399,820
Contract assets	(i)	-	15,600,853	15,600,853
Contract liabilities	(i)	-	43,650,082	43,650,082
Other payables and accruals	(i)	56,627,701	(43,650,082)	12,977,619
Contract assets - non-current	(i)	-	1,879,073	1,879,073
Other non-current assets	(i)	42,212,597	(1,879,073)	40,333,524

(i) Presentation of assets and liabilities related to contracts with customers

The Group has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of HKFRS 15 and HKFRS 9:

- Contract assets recognised in relation to construction services were previously presented as part of inventories and construction services (RMB7,094,826,000 as at 1 January 2018).
- Contract assets recognised in relation to receivables of warranty were previously presented as part of trade receivables (RMB8,506,027,000 as at 1 January 2018).
- Contract assets recognised in relation to receivables of warranty were previously presented as part of other non-current assets (RMB1,879,073,000 as at 1 January 2018).
- Contract liabilities in relation to sales and construction services were previously included in trade and other payables (RMB43,650,082,000 as at 1 January 2018).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.3 Changes in accounting policies (continued)

(C) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (continued)

(ii) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018.

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) RMB'000	Hypothetical amounts under HKASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) RMB'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Construction contracts	-	7,342,364	(7,342,364)
Contract assets	12,229,782	-	12,229,782
Trade receivables	18,840,593	23,728,011	(4,887,418)
Contract assets – non-current	8,133,980	-	8,133,980
Other non-current assets	-	8,133,980	(8,133,980)
Contract liabilities	36,566,071	-	36,566,071
Other payables and accruals	17,165,670	53,731,741	(36,566,071)

The significant differences arise as a result of the changes in accounting policies described above.

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 2018

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 the Company.

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 will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with HKFRS 9. Other contingent consideration that is not within the scope of HKFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018

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 the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

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 2018

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 2018

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 coordinated 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

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.13.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

2.13.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in profit or loss using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

2.13.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.13.5 Accounting policies applied until 31 December 2017

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

(a) Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

(b) Subsequent measurement

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

2.13.5 Accounting policies applied until 31 December 2017 (continued)

(b) Subsequent measurement (continued)

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at FVPL' – in profit or loss within other gains/(loss)
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 3.3(a).

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

(c) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could 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 decreased and the decrease could 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 was recognised in profit or loss.

Impairment testing of trade receivables is described in note 3.1(b).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

2.13.5 Accounting policies applied until 31 December 2017 (continued)

(c) Impairment (continued)

Assets classified as available-for-sale

If there was objective evidence of impairment 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 – was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss and were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through 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.

2.14.2 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 held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 FINANCIAL LIABILITIES (CONTINUED)

2.14.2 Subsequent measurement (continued)

(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 are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments, and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

2.14.3 Derecognition of financial liabilities

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

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 contingent 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 counterparty.

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 qualify as cash flow hedges is recognised in cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other gains/(losses).

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument. Until 31 December 2018, the Group classified foreign currency options as held-for-trading derivatives and accounted for them at FVPL.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within OCI in the costs of hedging reserve within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

(b) Cash flow hedge (continued)

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.21 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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 2018

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 2018

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

The Group recognises revenue to depict the transfer of control to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services.

Sales of goods

Sales are recognised when the products have been shipped to the specific location in accordance with the sales contract and the customers have inspected and accepted the products. There is no significant financing component as the sales are made with a credit term varied by customers' credit risk characteristics, which is consistent with market practices.

Rendering services

Revenue from providing services to external parties is recognised over a period of time based on the stage of completion of such service, which is determined by the proportion of costs incurred to the estimated total costs. As at the balance sheet date, the Group reassesses the stage of completion so as to better reflect the changes in obligation performance.

Revenue is recognised by the stage of completion of the services. Trade receivables are recognised when the Group has an unconditional right to payment. For the remaining part of the services, a contract asset is recognised. The Group recognises the loss provision using the expected credit loss model for its trade receivables and contract assets. If the payments received or receivable exceed the services rendered, a contract liability is recognised for the excess. Contract assets and contract liabilities under the same contract are presented on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 REVENUE RECOGNITION (CONTINUED)

Construction services

Revenue from providing construction services to external parties is recognised over a period of time based on the stage of completion of such service, which is determined by the proportion of costs incurred to the estimated total costs. As at the balance sheet date, the Group reassesses the stage of completion so as to better reflect the changes in obligation performance.

Revenue is recognised by the stage of completion of the construction services. Trade receivables are recognised when the Group has an unconditional right to payment. For the remaining part of the services, a contract asset is recognised. The Group recognises the loss provision using the expected credit loss model for its trade receivables and contract assets. If the payments received or receivable exceed the services rendered, a contract liability is recognised for the excess. Contract assets and contract liabilities under the same contract are presented on a net basis.

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 INTEREST INCOME

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see note 7 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – available-for-sale securities, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 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.

Rental income

Rental income from operating leases is recognised by the straight-line method during each period of the lease term, and contingent rents are recorded in the current profits and losses when they actually occur.

2.32 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 payable 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, Hong Kong 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 2018, 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 RMB374,917,000 (2017: RMB550,946,000) higher/lower. At 31 December 2018, 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 RMB986,000 (2017: RMB295,424,000) lower/higher. At 31 December 2018, 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 RMB4,000 (2017: RMB5,628,000) lower/higher. At 31 December 2018, 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 RMB15,766,000 (2017: RMB2,883,000) higher/lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(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 investments at fair value through other comprehensive income as at 31 December 2018. The Group's listed investments are listed on the Shenzhen Stock Exchange ("SZSE"), the Shanghai Stock Exchange ("SHSE") and National Equities Exchange and Quotations ("NEEQ") are valued at quoted market prices at the end of the reporting period.

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**
2018			
Equity investments:			
SZSE – At fair value through profit or loss	1,839	92	-
SHSE – At fair value through profit or loss	1,072,677	53,634	-
National Equity Exchange and Quotation – At fair value through profit or loss	57,653	2,883	-
2017			
Equity investments:			
SZSE – Available-for-sale	127,587	-	4,785
– At fair value through profit or loss	14,456	542	-
SHSE – 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

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

	2018	
	At fair value through profit or loss	**At fair value through other comprehensive income**
	RMB'000	**RMB'000**
Within 1 year	19,805	-
1 to 5 years	-	261,372
More than 5 years	-	-
Total	19,805	261,372
Effective interest rate (% per annum)	1.00	6.00

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Other financial assets

	2018		
	Loans receivable	Discounted bills receivable	Time deposits
	RMB'000	RMB'000	RMB'000
Within 1 year	6,760,500	317,917	15,801,296
1 to 5 years	-	-	-
Total	6,760,500	317,917	15,801,296
Effective interest rate (% per annum)	3.91-4.91	4.14-5.46	1.56-6.35

	2017		
	Loans receivable	Discounted bills receivable	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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(a) Market risk (continued)

(iii) interest rate risk (continued)

Financial liabilities

	2018	
	Bank and other borrowings with variable rates	**Customer deposits***
	RMB'000	**RMB'000**
Within 1 year	1,508,582	4,431,761
1 to 5 years	6,689,455	-
Total	8,198,037	4,431,761
Effective interest rate (% per annum)	1.35-4.51	0.35-2.31

	2017	
	Bank and other borrowings with variable rates	**Customer deposits***
	RMB'000	**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

* 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 2018

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 RMB'000	Increase/ (decrease) in other comprehensive income RMB'000
2018			
RMB	15	31,164	-
RMB	(15)	(31,164)	-
USD	15	(1,660)	-
USD	(15)	1,660	-
EUR	15	(1,232)	-
EUR	(15)	1,232	-
2017			
RMB	15	33,825	224
RMB	(15)	(33,825)	(224)
USD	15	(52)	-
USD	(15)	52	-
EUR	15	(848)	-
EUR	(15)	848	-

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(b) Credit risk

Credit risk arises from deposit with banks, contractual cash flows of debt instruments carried at amortised cost, at fair value through comprehensive income (FVOCI) and at fair value through profit or loss (FVPL), and trade and other receivables (excluding prepayment and value-added tax recoverable).

The Group has three types of financial assets that are subject to the expected credit loss model:

- trade receivables at amortised cost;
- trade receivables at FVOCI;
- contract assets; and
- financial assets at amortised cost.

While deposit with banks, including time deposits, restricted cash, cash and cash equivalents, are also subject to the impairment requirements of HKFRS 9, identified impairment loss was immaterial.

Trade receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been Grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for both trade receivables and contract assets:

31 December 2018	Current	Up to 1 year past due	More than 1 year past due	More than 2 years past due	More than 3 years past due	Total
Expected loss rate	0%-2%	1%-13%	5%-37%	31%-82%	47%-100%	
Gross carrying amount – trade receivables	7,405,228	7,435,822	4,636,337	1,891,709	4,025,434	25,394,530
Gross carrying amount – contract assets	21,423,771	-	-	-	-	21,423,771
Gross carrying amount – trade receivables at FVOCI	1,776,174	940,704	25,533	-	249,089	2,991,500
Loss allowance	1,287,484	680,377	800,314	1,193,910	3,918,442	7,880,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(b) Credit risk (continued)

1 January 2018	Current	Up to 1 year past due	More than 1 year past due	More than 2 years past due	More than 3 years past due	Total
Expected loss rate	0%-3%	1%-13%	5%-41%	31%-82%	47%-100%	-
Gross carrying amount – trade receivables	8,353,926	7,835,613	3,391,226	4,101,669	2,682,386	26,364,820
Gross carrying amount – contract assets	17,497,486	-	-	-	-	17,497,486
Loss allowance	718,873	662,131	1,379,283	2,670,410	2,425,934	7,856,631

The closing loss allowances for trade receivables and contract assets as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Contract assets RMB'000	Trade receivables RMB'000
31 December – calculated under HKAS 39	-	6,966,530
Amounts restated from the impact of adoption of HKFRS 15	501,808	(1,530)
Amounts restated through opening retained earnings	217,065	172,758
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	718,873	7,137,758
Increase in loan loss allowance recognised in profit or loss during the year	385,828	1,243,341
Receivables written off during the year as uncollectible	(31,298)	(47,808)
Unused amount reversed	(13,394)	(1,521,078)
Transferred to FVOCI	-	(258,276)
At 31 December	1,060,009	6,553,937

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(b) Credit risk (continued)

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Financial assets at amortised cost

Financial assets at amortised cost include loans receivable, lease receivables, reverse repurchase agreements and others.

The loss allowance for financial assets at amortised cost as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 January 2018 as follows:

	Loans receivable	Lease receivables	Reverse repurchase agreements	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Closing loss allowance as at 31 December 2017 (calculated under HKAS 39)	515,323	629,267	-	16,030	1,160,620
Amounts restated from the impact of adoption of HKFRS 15	-	-	-	(16,030)	(16,030)
Amounts restated through opening retained earnings	-	67,549	-	-	67,549
Opening loss allowance as at 1 January 2018 (calculated under HKFRS 9)	515,323	696,816	-	-	1,212,139
Increase in the allowance recognised in profit or loss during the period	-	213,319	-	2,742	273,869
Unused amount reversed	(50,551)	-	-	-	(50,551)
Other decreases	(140,950)	-	-	-	(140,950)
Closing loss allowance as at 31 December 2018	381,630	910,135	-	2,742	1,294,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTORS (CONTINUED)

(b) Credit risk (continued)

Net impairment losses on financial and contract assets recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss in relation to impaired financial assets:

	2018 RMB'000	2017 RMB'000
Impairment losses on contract assets	372,434	—
Impairment losses on lease receivables	213,319	—
Impairment losses on loans receivable	7,257	—
Impairment losses on discounted bills receivable	4,283	—
Impairment losses on others	2,742	—
Reversal of trade and other receivables impairment losses	(244,299)	—
	355,736	—

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.

	2018					
	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	31,666,317	2,983,805	4,230,692	-	-	38,880,814
Bills payable	-	2,963,409	3,424,089	-	-	6,387,498
Financial liabilities included in other payables and accruals	9,980,333	1,386,244	672,453	220,102	-	12,259,132
Customer deposits	3,834,635	215,753	396,884	-	-	4,447,272
Bank and other borrowings	-	1,436,556	9,149,606	8,237,389	3,217,875	22,041,426
Financial liabilities included in other non-current liabilities	-	-	-	732,987	52,085	785,072
Bonds	-	60,758	182,272	13,846,688	-	14,089,718
Financial liabilities at fair value through profit or loss and derivative financial instruments	-	-	109,708	-	-	109,708
	45,481,285	9,046,525	18,165,704	23,037,166	3,269,960	99,000,640

	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	7,253,186	584,811	723,586	236,277	-	8,797,860
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	-	-	-	895,146	48,560	943,706
Bonds	-	438,986	1,316,959	10,941,763	-	12,697,708
Derivative financial instruments	-	-	8,537	-	-	8,537
	36,505,457	8,818,835	12,526,246	15,181,527	1,900,586	74,932,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 and 31 December 2017.

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:

	2018 RMB'000	2017 RMB'000
Bank and other borrowings	19,939,952	7,368,286
Bonds	12,749,245	11,657,533
Customer deposits	4,431,761	3,324,568
Debt	37,120,958	22,350,387
Total equity	73,636,620	70,721,587
Total equity and net debt	110,757,578	93,071,973
Gearing ratio	33.52%	24.01%

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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Financial liabilities				
Non-current portion of bank and other borrowings	9,588,836	4,144,184	9,569,632	4,056,097
Non-current portion of bonds	12,749,245	10,058,027	13,846,688	10,941,763
	22,338,081	14,202,211	23,416,320	14,997,860

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 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 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 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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) assets measured at fair value:

	As at 31 December 2018 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
Investments at fair value through profit or loss:				
Investment funds	3,541,849	-	-	3,541,849
Equity investments	57,653	-	-	57,653
Debt investments	19,805	-	-	19,805
Investment products	-	466,255	-	466,255
Non-hedging derivative financial instruments	-	333,888	-	333,888
Derivative financial instruments Forward foreign exchange contract	-	788	-	788
Other Current assets:				
Notes receivable measured at fair value and recorded in other comprehensive gains	-	604,834	-	604,834
Interbank negotiable certificates of deposit	-	5,787,735	-	5,787,735
Trade receivables measured at fair value and recorded in other comprehensive gains	-	2,724,919	-	2,724,919
Other non-current financial assets	1,087,735	-	4,273,111	5,360,846
Other Debt investments	-	261,372	-	261,372
	4,707,042	10,179,791	4,273,111	19,159,944

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(a) Fair value hierarchy (continued)

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

	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 2018

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 2018 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
Forward interest rate contract	-	5,168	-	5,168
Transaction financial liabiliies	-	104,540	-	104,540

	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
Forward foreign exchange contract	-	8,537	-	8,537

(iii) Liabilities for which fair value are disclosed:

	As at 31 December 2018 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	-	9,588,836	-	9,588,836
Non-current portion of bonds	-	12,749,245	-	12,749,245

	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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Estimated impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB3,398,942,000 (2017: RMB2,648,897,000). 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 2018 was RMB4,925,401,000 (2017: RMB3,982,674,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2018 was RMB5,072,646,000 (2017: RMB7,978,519,000). Further details are contained in Note 25 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(e) Measurement of expected credit losses

The Group calculates expected credit losses through default risk exposure and expected credit loss rate, and determines the expected credit loss rate based on default probability and default loss rate. In determining the expected credit loss rate, the Group uses data such as internal historical credit loss experience and adjusts historical data based on current conditions and forward-looking information. When considering forward-looking information, the indicators used by the Group include the risk of economic downturn, the expected increase in unemployment rate, the external market environment, the technological environment and changes in customer conditions. The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses.

(f) Classification of financial assets

The significant judgments the Company has in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Company determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include evaluation and reporting of financial asset performance to key management personnel, risks affecting the performance of financial assets and their management methods, and the manner in which relevant management personnel are paid, etc.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Company has the following main judgments: Whether the principal may be subject to change in the duration or amount of money during the duration due to prepayments; This includes currency time value, credit risk, other basic borrowing risks, and considerations for costs and profits.

(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 2018 was RMB4,413,326,000 (2017: RMB4,253,157,000). More details are given in Note 42 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(h) Useful lives of property, plant and equipment

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

(i) Defined benefit plan

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

(j) Revenue recognition

The Group uses the percentage of completion method to recognise contract revenue over a period of time when the outcome of the construction services could be estimated reliably. The performance of the contract is recognised in accordance with the method described in revenue recognition of Note 2, and is cumulatively calculated in each fiscal year in which each construction service is performed.

When determining the percentage of completion, significant estimates and judgements are made as to the performance costs incurred, estimated of contract revenue and contract costs, and contract recyclability. Management relies mainly on past experience to make judgments. 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(l) Income tax (continued)

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 2018. Those subsidiaries provided income tax and recognised the deferred tax assets and liabilities at tax rate of 15%.

(m) Judgment of significant increase in credit risk

The main criterion for the Company to judge the significant increase in credit risk is that the number of overdue days exceeds 30 days, or one or more of the following indicators change significantly: the operating environment of the debtor, internal and external credit ratings, significant changes in actual or expected operating results, the value of guarantees and the significant decrease in the credit rating of the guarantor.

The Company's main criteria for determining the credit impairment have been overdue for more than 90 days (i.e., defaults have occurred), or one or more of the following conditions: the debtor has significant financial difficulties, other debt restructuring or likely bankruptcy.

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% of the voting rights. This is because the Group is the single largest shareholder of SMEI with a 48.81% equity interest. The remaining 51.19% 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

5. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018	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	12,840,987	30,569,384	36,509,296	15,364,593	5,829,963	43,302	-	101,157,525
Intersegment sales	1,029,676	3,657,219	950,735	1,652,655	126,228	92,888	(7,509,401)	-
Total revenue	13,870,663	34,226,603	37,460,031	17,017,248	5,956,191	136,190	(7,509,401)	101,157,525
Operating profit/(loss)	604,042	1,386,407	2,136,390	1,869,597	1,021,671	(669,701)	(66,873)	6,281,533
Finance costs – net								(939,563)
Share of profits and losses of:								
Joint ventures								(167,798)
Associates								833,944
Profit before tax								6,008,116
Income tax expense								(676,865)
Profit for the year								5,331,251
Assets and liabilities								
Total assets	34,288,634	57,271,348	47,727,958	86,213,624	7,836,573	50,660,426	(65,476,698)	218,521,865
Total liabilities	19,280,034	40,645,416	28,684,106	75,890,509	2,461,494	34,331,314	(56,407,628)	144,885,245
Other segment information:								
Capital expenditure	2,107,870	317,367	699,010	61,009	151,406	37,418	-	3,374,080
Depreciation and amortization	333,919	565,158	782,962	29,054	195,073	277,616	-	2,183,782
Other non-cash expenses	1,011,425	763,249	141,065	269,442	14,069	-	-	2,199,250

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								
Share of profits and losses of:								(458,258)
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 2018

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	89,912,344	69,027,136
Other countries/jurisdictions	11,245,181	10,516,658
	101,157,525	79,543,794

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	44,245,370	34,144,301
Other countries/jurisdictions	6,264,023	5,912,238
	50,509,393	40,056,539

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

6. REVENUE

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

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue		
Turnover		
Sale of goods	78,954,865	60,763,888
Construction services	11,791,236	9,363,607
Rendering of services	6,913,306	6,054,055
	97,659,407	76,181,550
Other revenue		
Rental income under operating leases	707,750	606,320
Sales of raw materials	701,012	725,204
Finance lease income	590,506	734,444
Finance Company:		
Interest income on loans receivable and discounted bills receivable	287,075	241,956
Interest income from banks and other financial institutions	710,247	517,380
Others	501,528	536,940
	3,498,118	3,362,244
	101,157,525	79,543,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE (CONTINUED)

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major revenue streams and geographical regions:

	2018								
	Sales of goods			Construction services					
	Mainland China	Other countries and regions within Asia	Other countries and regions outside Asia	Mainland China	Other countries and regions within Asia	Other countries and regions outside Asia	Rendering of services	Others	Total
Revenue	70,524,281	1,811,667	6,618,917	9,185,716	1,683,731	921,789	6,913,306	-	97,659,407
Timing of revenue recognition									
At a point in time	70,524,281	1,811,667	6,618,917	-	-	-	1,128,195	-	80,083,060
Over time	-	-	-	9,185,716	1,683,731	921,789	5,785,111	-	17,576,347
Other revenue	658,238	5,165	37,609	-	-	-	128,830	2,668,276	3,498,118
	71,182,519	1,816,832	6,656,526	9,185,716	1,683,731	921,789	7,042,136	2,668,276	101,157,525

	2017								
	Sales of goods			Construction services					
	Mainland China	Other countries and regions within Asia	Other countries and regions outside Asia	Mainland China	Other countries and regions within Asia	Other countries and regions outside Asia	Rendering of services	Others	Total
Revenue	52,486,940	1,464,321	6,812,627	7,335,537	1,769,487	258,583	6,054,055	-	76,181,550
Timing of revenue recognition									
At a point in time	52,486,940	1,464,321	6,812,627	-	-	-	1,088,208	-	61,852,096
Over time	-	-	-	7,335,537	1,769,487	258,583	4,965,847	-	14,329,454
Other revenue	702,141	2,141	20,922	-	-	-	75,753	2,561,287	3,362,244
	53,189,081	1,466,462	6,833,549	7,335,537	1,769,487	258,583	6,129,808	2,561,287	79,543,794

6. REVENUE (CONTINUED)

(b) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	Note	2018 RMB'000	2017 RMB'000
Contract assets relating to sale of goods and rendering of services	(i)	13,664,092	—
Contract assets relating to construction services	(ii)	7,759,679	—
Less: Provision for impairment		(1,060,009)	—
Non current contract assets		(8,133,980)	—
Current contract assets		12,229,782	—
Contract liabilities:	(iii)		
Contract liabilities relating to sale of goods and rendering of services		34,581,064	—
Contract liabilities relating to construction services	(iv)	1,985,007	—
Total current contract liabilities		36,566,071	—

(i) Contract assets relating to sale of goods and rendering of services are mainly related to the undue warranty receivables.

(ii) Contract assets relating to construction services

	2018 RMB'000	2017 RMB'000
Contract costs incurred plus recognised profits less losses	53,494,258	—
Less: Pprogress billings	(45,734,579)	—
Provision for impairment	(417,315)	—
Gross amount due from contract customers	7,342,364	—

(iii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

Revenue recognised that was included in the contract liability balance at the beginning of the period:

	2018 RMB'000	2017 RMB'000
Sale of goods	25,141,760	—
Construction services	1,671,649	—
Rendering of services	2,573,159	—
Other revenue	26,620	—
	29,413,188	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6. REVENUE (CONTINUED)

(b) Assets and liabilities related to contracts with customers (continued)

(iv) Contract liabilities relating to construction services

The following table shows unsatisfied performance obligations resulting from construction services.

	2018 RMB'000	2017 RMB'000
Aggregate amount of the transaction price allocated to construction services that are partially or fully unsatisfied as at 31 December	1,985,007	—

Management expects that 87.2% of the transaction price allocated to the unsatisfied construction services as of 31 December 2018 will be recognised as revenue during the next reporting period (RMB1,731,450,000), 9.5% (RMB187,929,000) will be recognised in the 2020 financial year and the remaining 3.3% (RMB65,628,000) will be recognised in the 2021 and beyond financial year. The amount disclosed above does not include variable consideration which is constrained.

All other construction services are for periods of one year or less or are billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(v) The amounts due from related parties included in contract assets and contract liabilities are analysed as follows:

	2018 RMB'000	2017 RMB'000
Contract assets:		
Associates	3,617	—
Contract liabilities :		
The ultimate holding company	185	—
SEC group companies	28,226	—
Associates	1,621	—
Other related companies	414,805	—
	444,837	—

7. OTHER INCOME AND OTHER GAINS, NET

	2018 RMB'000	2017 RMB'000
Other income		
Subsidy income	1,085,081	530,627
Income on debt investments	254,430	—
Interest income on debt investments	18,966	350
Dividend income from equity investments and investment funds	16,546	152,406
	1,375,023	683,383
Other gains, net		
Gains on disposal of subsidiaries	104,663	13,647
Gains on disposal of intangible assets	48,982	-
Gains on disposal of associates	7,668	19,757
(Losses)/gains on disposal of property, plant and equipment	(1,996)	132,658
Losses on disposal of goodwill	(12,483)	-
Investments at fair value through profit or loss:		
Unrealised fair value gains/(losses) - net	92,122	(3,919)
Realised fair value losses	(72,955)	(14,698)
Derivative financial instruments - transactions not qualifying as hedges:		
Unrealised fair value gains	141	236
Realised gains on available-for-sale investments (transfer from equity)	—	1,395,268
Exchange gains - net	105,347	968
Others	118,962	112,327
	390,451	1,656,244
Total other income and other gains, net	1,765,474	2,339,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

8. EXPENSE BY NATURE

	2018 RMB'000	2017 RMB'000
Raw materials and consumables used	45,846,204	35,048,125
Cost of purchased product components and services	30,253,375	22,848,965
Employee benefit expenses (Note 9)	8,699,955	8,403,780
Depreciation and amortisation (Note 14, Note 15, Note 16 and Note 18)	2,183,782	2,249,090
Asset impairment charge	1,459,456	2,893,107
Office expenses	776,938	596,794
Utility expenses	772,934	553,486
Commissions and brokerage fees	749,400	555,012
Operating lease expenses	695,283	478,576
Transportation cost and packaging fees	661,039	445,074
Taxes levies and surcharges	519,993	547,728
Net impairment losses on financial and contract assets	355,736	—
Other costs related to investment property	280,246	240,189
Technique commission expenses	184,960	282,172
Interest paid for customer deposits	62,190	17,977
Remuneration of auditors and other consulting fees	47,217	45,683
Other expenses	3,092,758	2,196,648
Total cost of sales, distribution costs, administrative expenses and net impairment losses on financial and contract assets	96,641,466	77,402,406

9. EMPLOYEE BENEFIT EXPENSE

	2018 RMB'000	2017 RMB'000
Staff costs (including directors' and supervisors' remuneration)		
Wages and salaries	6,676,617	6,666,799
Defined contribution pension scheme (i)	961,583	845,351
Supplementary pension	121,253	28,465
Early retirement benefits and staff severance costs (ii)	83,734	26,392
Medical benefits costs (iii)	422,121	404,562
Housing fund	434,616	432,187
Cash housing subsidy costs	31	24
	8,699,955	8,403,780

(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% (2017:21.0%) 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 SEC have agreed that the costs of the Supplementary Pension Benefits are borne by SEC 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 SEC 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 2018

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 RMB146,142,393 as at 31 December 2018 (2017: RMB155,157,221).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 (2017: Nil) was included in the five highest paid employees during the year. Details of the remuneration for the year of the five (2017: five) highest paid employees who are neither a director nor a supervisor of the Company, are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, bonuses and allowances received from the Group	15,167	13,440
Pension scheme from the ultimate holding company	202	192
Other social benefit schemes contributed by the Group	7,318	5,895
	22,687	19,527

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

	Number of employees	
	2018	2017
HK$2,000,001 - HK$2,500,000	1	1
HK$2,500,001 - HK$3,000,000	1	1
HK$3,500,001 - HK$4,000,000	1	-
HK$4,000,001 - HK$4,500,000	-	2
HK$6,000,001 - HK$6,500,000	1	-
HK$9,500,001 - HK$10,000,000	-	1
HK$11,000,001 - HK$11,500,000	1	-
	5	5

10. FINANCE COSTS - NET

	2018 RMB'000	2017 RMB'000
Interest income:	213,893	198,847
Interest expense:		
- Bank and other borrowings	(803,421)	(239,372)
- Bonds	(350,035)	(417,733)
	(939,563)	(458,258)

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 2018 (2017: 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 2018. 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.

	2018 RMB'000	2017 RMB'000
Current tax		
Charge for the year	1,349,488	1,405,498
Overprovision in prior years	(97,507)	(30,120)
Deferred tax (Note 25)	(575,116)	(852,956)
Total tax charge for the year	676,865	522,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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:

	2018 RMB'000	%	2017 RMB'000	%
Profit before tax	6,008,116		5,365,249	
Tax at the statutory tax rate	1,502,029	25.0	1,341,312	25.0
Lower tax rates for specific districts or concessions	(335,027)	(5.6)	(91,993)	(1.7)
Overprovision in prior years	(97,507)	(1.6)	(30,120)	(0.6)
Profits and losses attributable to joint ventures and associates	(168,823)	(2.8)	(316,493)	(5.9)
Income not subject to tax	(55,427)	(0.9)	(336,394)	(6.3)
Expenses not deductible for tax	52,213	0.9	54,472	1.0
Tax incentives on eligible expenditures	(108,032)	(1.7)	(59,253)	(1.1)
Utilization of previously unrecognised tax losses and deductible temporary differences	(369,799)	(6.2)	(416,812)	(7.8)
Tax losses and deductible temporary differences for which no deferred tax assets was recognised	260,377	4.3	369,951	6.9
Reversal of deferred tax assets recognized in prior year	506	-	4,517	0.1
Others	(3,645)	(0.1)	3,235	0.1
	676,865	11.3	522,422	9.7

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic earnings per share

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 14,725,182,167 (2017: 14,034,092,485) in issue during the financial year.

The calculation of basic earnings per share is based on:

	2018	2017
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation (RMB'000)	2,980,460	2,626,668
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	14,725,182,167	14,034,092,485

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with convertible bond , and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of convertible bonds using the conversion price at year end.

	2018 RMB'000	2017 RMB'000
Profit from continuing operations attributable to the ordinary equity holders of the company		
Used in calculating basic earnings per share	2,980,460	2,626,668
Add: interest savings on convertible bonds	207,233	-
Used in calculating diluted earnings per share	3,187,693	2,626,668
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	3,187,693	2,626,668

	2018	2017
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	14,725,182,167	14,034,092,485
Adjustments for calculation of diluted earnings per share:		
Convertible bonds	1,155,358,706	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	15,880,540,873	14,034,092,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final dividends for the year ended 31 December 2018 of RMB6.146 cents per ordinary share (2017: RMB9.195 cents)	**905,010**	1,353,980

On 29 March 2019, the board of directors of the Company resolved to recommend to the shareholders of the Company a final dividend of RMB6.146 cents per share (tax inclusive), totaling to RMB905,010,000 for the year ended 31 December 2018.

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.

The Company did not declare any dividend other than the final dividend during the year of 2018 and 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 2018	10,218,472	16,145,888	513,270	1,442,103	2,557,178	30,876,911
Additions	35,821	240,403	20,419	99,041	2,692,778	3,088,462
Additions due to acquisition of subsidiaries	57,450	52,842	1,854	2,444	173,301	287,891
Disposals	(43,975)	(429,376)	(31,473)	(60,566)	(21,253)	(586,643)
Deduction due to disposal of subsidiaries	(84,122)	(66,483)	(7,744)	(21,845)	-	(180,194)
Transfers from construction in progress	864,506	842,509	9,553	132,256	(1,848,824)	-
Transfer to prepaid land lease payments (Note 16)	-	-	-	-	(92,684)	(92,684)
Transfer to other intangible assets (Note 18)	-	-	-	-	(1,559,532)	(1,559,532)
Transfer to investment properties (Note 15)	(29,880)	-	-	-	-	(29,880)
Transfer to other non-current assets	-	-	-	-	(54,547)	(54,547)
Translation reserve	12,858	14,372	322	2,461	388	30,401
At 31 December 2018	11,031,130	16,800,155	506,201	1,595,894	1,846,805	31,780,185
Accumulated depreciation and impairment:						
At 1 January 2018	3,563,700	9,466,537	381,630	995,090	1,042	14,407,999
Depreciation for the year (Note 8)	395,595	1,050,157	33,268	161,604	-	1,640,624
Impairment for the year	-	27,547	-	25	346	27,918
Transfer to investment properties (Note 15)	(17,140)	-	-	-	-	(17,140)
Deduction of impairment due to the disposals	(177)	(1,894)	-	-	(514)	(2,585)
Deduction of depreciation due to the disposals	(3,349)	(305,741)	(28,950)	(53,398)	-	(391,438)
Deduction in depreciation due to disposal of subsidiaries	(22,498)	(40,465)	(4,736)	(13,624)	-	(81,323)
Translation reserve	4,004	12,173	33	805	41	17,056
At 31 December 2018	3,920,135	10,208,314	381,245	1,090,502	915	15,601,111
Net carrying amount:						
At 31 December 2018	7,110,995	6,591,841	124,956	505,392	1,845,890	16,179,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2017	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)	-
Transfer 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	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

As at 31 December 2018, the net carrying amount of buildings and machinery mortgaged by the Group for bank loans was RMB554,128,000 (31 December 2017: RMB404,395,000) (Note 41).

As at 31 December 2018, the net carrying amount of houses without property ownership certificates of the Group was RMB4,936,000 (31 December 2017: RMB6,186,000).

Rental expense related to equipment and property recognised in the statement of profit or loss was RMB695,283,000 (2017: RMB478,576,000) (Note 8).

In the current year, the capitalized interest was RMB17,877,000 (2017:RMB2,310,000).

15. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	1,496,302	1,565,318
Addition	34,916	75,290
Transfer from prepaid land lease payments (Note 16)	28,609	-
Transfer from fixed assets (Note 14)	29,880	-
Disposals	(2,475)	(144,306)
At 31 December	1,587,232	1,496,302
Accumulated depreciation and impairment:		
At 1 January	663,794	620,828
Depreciation for the year (Note 8)	84,566	100,514
Transfer from prepaid land lease payments (Note 16)	8,778	-
Transfer from fixed assets (Note 14)	17,140	-
Disposals	(1,115)	(57,548)
At 31 December	773,163	663,794
Net carrying amount:		
At 31 December	814,069	832,508

As at 31 December 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: Nil). The Group's investment properties are situated in mainland China and are held under the following lease terms:

	2018 RMB'000	2017 RMB'000
Medium term leases (less than 50 years but not less than 10 years)	369,447	367,667
Short term leases (less than 10 years)	444,622	464,841
	814,069	832,508

As at 31 December 2018, the fair value of Investment properties were approximately RMB3,863,247,000. The estimate is made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

16. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	6,567,757	4,904,889
Additions	41,243	1,718,288
Additions due to acquisition of subsidiaries	235,643	-
Transfer from construction in progress (Note 14)	92,684	-
Disposals	(54,874)	(55,420)
Transfer to investment properties	(28,609)	-
At 31 December	6,853,844	6,567,757
Accumulated amortisation and impairment:		
At 1 January	739,176	543,209
Amortisation for the year (Note 8)	252,875	208,648
Disposals	(150)	(12,681)
Transfer to investment properties (Note 15)	(8,778)	-
At 31 December	983,123	739,176
Net carrying amount:		
At 31 December	5,870,721	5,828,581

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

	2018 RMB'000	2017 RMB'000
At cost, held in Mainland China		
Leases of over 50 years	24,026	519,083
Leases of between 10 to 50 years	6,829,818	6,048,674
	6,853,844	6,567,757

As at 31 December 2018, RMB570,000,000 (31 December 2017: Nil) of the Group's bank loans are secured by pledges over certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB40,825,000, and pledges over the charge right of project after completion (Note 41).

17. GOODWILL

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	2,805,793	2,695,992
Increase during the year	904,065	-
Disposal during the year	(12,483)	-
Translation reserve	10,194	109,801
At 31 December	3,707,569	2,805,793
Impairment:		
At 1 January	156,896	141,165
Increase during the year	151,731	15,731
At 31 December	308,627	156,896
Net carrying amount:		
At 31 December	3,398,942	2,648,897

Impairment tests of goodwill

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

Cash-generating unit	Segment	2018 RMB'000	2017 RMB'000
Fastener R&D and manufacture	Industrial equipment	1,521,920	1,513,335
Environmental technology	New energy and environmental protection	917,798	13,733
Automation equipment	Industrial equipment	905,506	1,055,628
Transmission and distribution equipment	High efficiency and clean energy	46,625	46,625
Wind power equipment and others	New energy and environmental protection	7,093	7,093
Printing and packing machinery	Industrial equipment	-	12,483
		3,398,942	2,648,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

17. GOODWILL (CONTINUED)

The following table sets out the key assumptions for those Cash-generating units that have significant goodwill allocated to them:

2018	Fastener R&D and manufacture	Environmental technology	Automation equipment
Annual sales growth rate	2.5%~30.4%	1.0%~119.7%	5.6%
Long term growth rate	1.0%~2.0%	0%~4%	1.7%
Gross margin rate	22.0%~53.0%	7.4%~69%	22.1%
Pre-tax discount rate	10.5%~14.0%	11.8%~14.5%	8.0%

As at 31 December 2018, the pre-tax discount rates used in impairment assessment on goodwill for Fastener R&D and manufacture, Environmental technology, and Automation equipment were 14%~15%, 13.9%~14.6%, and 10.6%, respectively.

2017	Fastener R&D and manufacture	Automation equipment
Annual sales growth rate	2.5%~30.4%	12.7%
Long term growth rate	1.0%~2.0%	1.6%
Gross margin rate	22.0%~53.0%	20.8%
Pre-tax discount rate	10.5%~14.0%	8.0%

As at 31 December 2017, the pre-tax discount rates used in impairment assessment on goodwill for Fastener R&D and manufacture and Automation equipment were 14~15% and 10.6% respectively.

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Annual sales growth rate	Average annual growth rate over the three-year forecast period; based on past performance and management's expectations of market development.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
Gross margin rate	Based on past performance and management's expectations for the future.
Pre-tax discount rates	Reflect specific risks relating to the relevant segments and the countries in which they operate.

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 2018	1,132,861	536,385	492,461	564,642	2,726,349
Additions	86,347	185	4,756	110,867	202,155
Additions due to acquisition of subsidiaries	-	-	1,020	6,133	7,153
Transferred from construction in progress (Note 14)	-	-	1,557,365	2,167	1,559,532
Disposals	(2,100)	(10,233)	(8,365)	(82,093)	(102,791)
At 31 December 2018	1,217,108	526,337	2,047,237	601,716	4,392,398
Accumulated amortisation and impairment:					
At 1 January 2018	492,941	467,293	148,854	224,253	1,333,341
Amortisation for the year (Note 8)	38,989	19,299	33,818	39,402	131,508
Disposals	(4,530)	-	-	(1,883)	(6,413)
At 31 December 2018	527,400	486,592	182,672	261,772	1,458,436
Net carrying amount:					
At 31 December 2018	689,708	39,745	1,864,565	339,944	2,933,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

18. INTANGIBLE ASSETS (CONTINUED)

	Patents and licences	Technology know-how	Concession	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2017	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	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

Amortisation of RMB74,759,000 (2017: RMB73,052,000) and RMB56,750,000 (2017: RMB54,004,000) is included in the 'Administrative expenses' and 'Distribution costs', respectively, in the consolidated statement of profit or loss.

19. FINANCIAL ASSETS AT AMORTISED COST

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans to related parties	6,731,500	-	6,731,500	6,468,760	824,230	7,292,990
Loans to third parties (a)	29,000	-	29,000	191,000	-	191,000
	6,760,500	-	6,760,500	6,659,760	824,230	7,483,990
Lease receivables (b)	5,591,865	5,884,918	11,476,783	5,758,567	7,621,687	13,380,254
Less: unrealized finance income	(653,372)	(542,805)	(1,196,177)	(504,443)	(859,677)	(1,364,120)
Net lease receivables	4,938,493	5,342,113	10,280,606	5,254,124	6,762,010	12,016,134
Less: loss allowance for loans	(381,630)	-	(381,630)	(490,596)	(24,727)	(515,323)
Less: loss allowance for lease receivables	(758,481)	(151,654)	(910,135)	(467,170)	(162,097)	(629,268)
Carrying amounts of loans and lease receivables (listed in "Loans and lease receivables" in the balance sheet of 2017)	10,558,882	5,190,459	15,749,341	10,956,118	7,399,416	18,355,533
Reverse repurchase agreements (c)	2,308,712	-	2,308,712	1,497,130	-	1,497,130
Other receivables	14,256	5,682	19,938	28,555	2,172,088	2,200,643
Less: loss allowance for other receivables	(2,742)	-	(2,742)	(16,030)	-	(16,030)
	12,879,108	5,196,141	18,075,249	12,465,773	9,571,504	22,037,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

19. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

(a) Details of loans to subcontractors are listed as follows:

	2018		2017	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Beijing Shangzhuang Gas Thermoelectric Co., Ltd.	4.28%	29,000	4.00%	117,000
SDIC Xinji Lixin Power Co. Ltd.	-	-	4.00%	24,000
Tianjin SDIC Jinneng Electric Power Co., Ltd.	-	-	4.28%	50,000
		29,000		191,000

As at 31 December, 2018, loans to a third party represented RMB29,000,000 provided by the Group's subsidiary in December 2016, Finance Company, to Beijing Shangzhuang Gas Thermoelectric Co., Ltd. with a term of 3 year and an annual interest rate of 4.28%.

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

	2018 RMB'000	2017 RMB'000
Credit loans receivable	4,094,000	3,318,000
Guaranteed loans receivable	2,612,000	4,048,990
Secured loans	54,500	117,000
	6,760,500	7,483,990

As at 31 December 2018, none of the Group's loans receivable (2017: RMB117,000,000) was past due. The annual interest rates of loans provided to related parties range from 1.95% to 5.58% (2017: 1.95% to 5.58%).

(b) 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 31 December 2018 and 2017 is as follows:

	2018		2017	
	Lease receivables	Net lease receivables	Lease receivables	Net lease receivables
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	2,575,441	2,063,165	4,998,941	4,300,142
Over 1 year but within 5 years	8,718,512	7,166,896	8,381,313	7,086,725
Over 5 years	182,830	140,410	-	-
	11,476,783	9,370,471	13,380,254	11,386,867

19. FINANCIAL ASSETS AT AMORTISED COST (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:

	2018		2017	
	Lease receivables	Net lease receivables	Lease receivables	Net lease receivables
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	5,591,864	4,180,012	5,758,571	4,786,955
Over 1 year but within 5 years	4,731,455	4,162,374	7,344,310	6,365,448
Over 5 years	1,153,464	1,028,085	277,373	234,464
	11,476,783	9,370,471	13,380,254	11,386,867

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.

(c) Reverse repurchase agreements

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

	2018	2017
Reverse repurchase agreements classified by collateral		
- Corporate bonds	2,308,712	1,497,130

The period for reverse repurchase agreements is from 3 day to 14 days.

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

	2018		2017	
	Impairment of loans receivable	Impairment of lease receivables	Impairment of loans receivable	Impairment of lease receivables
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	515,323	696,816	197,965	437,643
Impairment losses recognised (Note 8)	7,257	213,319	317,358	191,625
Other decrease	(140,950)	-	-	-
At 31 December	381,630	910,135	515,323	629,268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

19. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Changes of the expected loss of loan receivables are as follows：

	Stage 1		Stage 2		Stage 3	
	Expected credit loss within 12 months		Expected credit loss for the entire period		Expected credit loss for the entire period	
	Book Value	Expected Loss	Book Value	Expected Loss	Book Value	Expected Loss
31 December 2017	3,943,760	107,669	2,599,000	353,677	117,000	29,250
Increase/(decrease)	254,240	(22,091)	(36,500)	(57,625)	(117,000)	(29,250)
31 December 2018	4,198,000	85,578	2,562,500	296,052	-	-

(i) As at December 31 2018, the Group did not have a loan receivable in stage 3, and there's no conversion among three stages.

(ii) As at 31 December 2018, the analysis of expected credit loss of loans receivable in Stage 1 is ：

	Book Value	Expected credit loss within 12 months	Expected Loss
Individual provision:	4,198,000	1%-2%	85,578

(iii) As at 31 December 2018, the analysis of expected credit loss of loans receivable in Stage 2 is ：

	Book Value	Expected credit loss for the entire period	Expected Loss
Individual provision:	2,562,500	3%-14%	296,052

19. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

Changes of the expected loss of lease receovables are as follows：

	Stage 1		Stage 2		Stage 3	
	Expected credit loss within 12 months		Expected credit loss for the entire period		Expected credit loss for the entire period	
	Book Value	Expected Loss	Book Value	Expected Loss	Book Value	Expected Loss
01 January 2018	9,529,305	129,708	1,155,597	164,693	1,331,232	402,415
Increase/(decrease)	(1,319,913)	(36,117)	(172,540)	(28,575)	(243,075)	10,123
Provision (increase) / decrease(Note 1)	-	(20,409)	-	184,956	-	103,341
Transfered this year	(716,760)	39,424	(222,623)	(147,222)	939,383	107,798
Transfer from Stage 1 to Stage 2	(828,791)	(9,180)	828,791	9,180	-	-
Transfer from Stage 1 to Stage 3	(381,199)	(3,626)	-	-	381,199	3,626
Transfer from Stage 2 to Stage 3	-	-	(567,331)	(104,172)	567,331	104,172
Transfer from Stage 2 to Stage 1	493,230	52,230	(493,230)	(52,230)	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	9,147	-	(9,147)	-
31 December 2018	7,492,632	112,606	760,434	173,852	2,027,540	623,677

Note 1: The project mainly includes the probability of default caused by the regular update of the model parameters: the default exposure, the change of the default loss rate and the impact of the phase change on the measurement of expected credit losses.

(i) As at 31 December 2018, the analysis of expected loss of lease reveivables in Stage 1 is:

	Book Value	Expected credit loss within 12 months	Expected Loss
Combination of provision：			
Lease reveivable 1	7,492,632	0%-5%	112,606

(ii) As at 31 December 2018, the analysis of expected loss of lease reveivables in Stage 2 is:

	Book Value	Expected credit loss for the entire period	Expected Loss
Combination of provision:			
Lease reveivable 2	760,434	0%-32%	173,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

19. FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)

(iii) As at 31 December 2018, the analysis of expected credit loss of lease receivables in Stage 3 is:

	Book Value	Expected credit loss for the entire period	Expected Loss	Reason
Lease receivable 1	171,154	30%	51,612	Unexpected to recover
Lease receivable 2	137,333	46%	62,762	Unexpected to recover
Lease receivable 3	158,726	28%	45,073	Unexpected to recover
Others	1,560,327	30%	464,230	Unexpected to recover
	2,027,540		623,677	

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise

Debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

	2018 RMB'000	2017 RMB'000
Current assets		
Other debt investment (Current)	5,787,735	-
Trade Receivables at fair value through other comprehensive income	2,724,919	-
Note Receivable at fair value through other comprehensive income	604,834	-
	9,117,488	-

Trade Receivables at fair value through other comprehensive income

	2018 RMB'000	2017 RMB'000
Trade receivables	2,991,500	-
Less: provision for impairment	(266,581)	-
	2,724,919	-

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(i) Classification of financial assets at fair value through other comprehensive income (continued)

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

	2018 RMB'000	2017 RMB'000
Not due	1,766,667	-
Within 3 months past due	122,793	-
Over 3 months but within 6 months past due	686,024	-
Over 6 months but within 1 year past due	126,455	-
Over 1 year but within 2 years past due	22,980	-
	2,724,919	-

(ii) Debt investments at fair value through other comprehensive income

Debt investments at FVOCI comprise the following investments in listed and unlisted bonds:

	2018 RMB'000	2017 RMB'000
Non-current assets		
Unlisted bonds	261,372	-

Financial assets previously classified as available-for-sale financial assets (2017). Available-for-sale financial assets included the following classes of financial assets:

	2018 RMB'000	2017 RMB'000
Non-current assets		
Equity investments	-	1,145,448
Investment products	-	51,930
Investment funds	-	22,186
Debt investments	-	174,247
	-	1,393,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(iii) Amounts recognised in profit or loss and other comprehensive income

During the year, the following gains were recognised in profit or loss and other comprehensive income.

	2018 RMB'000	2017 RMB'000
Gains recognised in other comprehensive income	120,428	243,737
Income on debt investments	(254,430)	—
Gains reclassified from other comprehensive income to profit or loss on the sale of available-for-sale financial assets	—	(1,395,268)

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward exchange contracts - hedges	-	(5,168)	14,682	(8,537)
Forward exchange contracts - non-hedging	788	-	922	-
	788	(5,168)	15,604	(8,537)
Portion classified as non-current	-		-	-
Current portion	788	(5,168)	15,604	(8,537)

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.

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 RMB10,414,000 (net of tax effect) was included in the hedging reserve as follows:

	2018 RMB'000	**2017 RMB'000**
Total fair value (losses)/gains included in the hedging reserve	(12,663)	41,202
Deferred tax impact on fair value change	3,546	(11,472)
Reclassified from other comprehensive income and recognised in the consolidated statement of profit or loss	(1,297)	-
Net (losses)/gains on cash flow hedges	(10,414)	29,730

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. Increases in the fair value of non-hedging financial derivatives amounting to RMB141,000 (2017: increases in the fair value of RMB236,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

22. SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2018 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%	Provision of financial services

22. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2018 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. ("SMEI")^ 上海機電股份有限公司^	PRC	RMB 1,022,740	48.81%	-	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 950,476	100%	-	Production and sale of machinery and spare parts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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22. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2018 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. ("SETD")& 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 3,000,000	100%	-	Provision of finance leases
Shanghai Electric Milling Equipment Co., Ltd. 上海電氣上重碾磨特裝設備有限公司	PRC	RMB 150,000	100%	-	Design, production and sale of power station equipment
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	EUR 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 1,000,000	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

22. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31 December 2018 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 210,000	-	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. ("PMC") 上海集優機械股份有限公司	PRC	RMB 1,438,286	47.18%	7.88%	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 Investment Co., Ltd. 上海電氣投資有限公司	PRC	RMB 570,000	100%	-	Industrial investment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

22. SUBSIDIARIES (CONTINUED)

Sino-foreign equity joint ventures

^ SMEI is 48.81% owned by the Company and is accounted for as a subsidiary by virtue of the Company's control over it. Details of the disclosure are included in Note 4.

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

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

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

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

	2018	**2017**
Percentage of equity interest held by non-controlling interests:		
SMEI	**51.19%**	52.17%
SETD	**50%**	50%
PMC	**44.94%**	52.82%

	2018 **RMB'000**	**2017** **RMB'000**
Profit for the year allocated to non-controlling interests:		
SMEI	**1,519,811**	1,656,172
SETD	**132,220**	30,310
PMC	**125,100**	133,208
Dividends paid to non-controlling interests of:		
SMEI	**1,106,104**	805,765
SETD	**77,084**	92,930
PMC	**-**	26,590

22. SUBSIDIARIES (CONTINUED)

	2018 RMB'000	2017 RMB'000
Accumulated balances of non-controlling interests at the reporting dates:		
SMEI	**7,859,374**	7,630,447
SETD	**2,013,385**	1,970,271
PMC	**2,046,783**	1,903,346

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

	2018 RMB'000	2017 RMB'000
SMEI		
Revenue	**21,233,742**	19,236,905
Total expenses	**(19,098,025)**	(16,875,737)
Profit for the year	**2,135,717**	2,361,168
Total comprehensive income	**2,136,173**	2,313,069
Current assets	**28,450,359**	28,504,161
Non-current assets	**5,211,230**	5,016,214
Current liabilities	**20,156,016**	20,664,951
Non-current liabilities	**375,946**	424,826
Net cash flows from operating activities	**188,450**	1,930,118
Net cash flows from investing activities	**1,246,152**	952,027
Net cash flows used in financing activities	**(1,415,756)**	(1,242,147)
Effect of changes in exchange rate on cash	**15,316**	(28,508)
Net increase in cash and cash equivalents	**34,162**	1,611,490

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

22. SUBSIDIARIES (CONTINUED)

	2018 RMB'000	2017 RMB'000
SETD		
Revenue	9,614,067	8,386,975
Total expenses	(9,436,818)	(8,344,060)
Profit for the year	177,249	42,915
Total comprehensive income for the year	177,249	51,190
Current assets	7,173,557	7,340,899
Non-current assets	1,430,868	1,370,311
Current liabilities	5,138,672	5,326,096
Non-current liabilities	77,709	76,635
Net cash flows from/(used in) operating activities	411,561	(749,032)
Net cash flows used in investing activities	(153,766)	(102,958)
Net cash flows (used in)/from financing activities	(78,356)	218,738
Effect of changes in exchange rate on cash	(3,141)	8,870
Net increase/(decrease) in cash and cash equivalents	176,298	(624,382)

	2018 RMB'000	2017 RMB'000
PMC		
Revenue	9,027,535	8,478,895
Total expenses	(8,750,284)	(8,226,121)
Profit for the year	277,251	252,774
Total comprehensive income for the year	280,216	264,602
Current assets	5,460,182	4,966,072
Non-current assets	4,198,038	4,297,101
Current liabilities	3,616,179	2,880,146
Non-current liabilities	1,885,161	2,820,002
Net cash flows from operating activities	507,399	596,789
Net cash flows used in investing activities	(143,966)	(233,641)
Net cash flows used in financing activities	(9,940)	(628,805)
Effect of changes in exchange rate on cash	(2,867)	(14,180)
Net increase/(decrease) in cash and cash equivalents	350,626	(265,657)

23. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Investments, cost:	5,401,471	4,839,733
Impairment	(444,098)	(444,098)
At 31 December	4,957,373	4,395,635
Share of associates' results in the consolidated statement of profit or loss	(167,798)	570,118

Set out below is the joint venture of the Group as at 31 December 2018, which, in the opinion of the directors, are material to the Group. The joint venture listed below has share capital consisting of solely of ordinary shares, which is held directly by the Group.

Company name	Place of incorporation/ registration and operation	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ansaldo Energia S.p.A ("AEN")	Italy	EUR180,000	-	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
Shanghai Yun Zhong Xin Enterprise Development Co., Ltd.	PRC	RMB 1,200,000	-	55%	Enterprrise management and management of real estate

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

23. INVESTMENTS IN JOINT VENTURES (CONTINUED)

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 denominated Euro bond amounting to EUR365,900,000 as hedging instrument from 1 January 2018 to 30 June 2018 and bond amounting to EUR307,700,000 as hedging instrument from 1 July 2018 to 31 December 2018. Formal document had been made to demonstrate the above hedging relationship as well as risk management objectives and hedging strategies. In 2018, the exchange difference reserve relating to the investment in AEN is RMB20,262,000. The effective portion of net investment hedge is RMB20,262,000. The net impact to other comprehensive income of above mentioned foreign exchange difference and the effective portion of net investment hedge is nil.

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 2018 RMB'000
Current	
Assets	11,935,837
Liabilities	(15,155,522)
Non-current	
Assets	15,772,505
Liabilities	(8,509,345)
Net assets	4,043,475

Summarised consolidated statement of comprehensive income

	2018 RMB'000
Revenue	9,494,338
Profit before income tax	(1,395,158)
Income tax expense	32,233
Profit for the year	(1,362,925)
Other comprehensive income	35,264
Total comprehensive income	(1,327,661)
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 2018, adjusted for differences in accounting policies between the Group and the joint ventures, and not SEG's share of those amounts.

23. 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

	2018 RMB'000
Opening net assets at acquisition day	4,749,008
Profit for the period	(1,362,925)
Capital injection	622,128
Other comprehensive income	35,264
Closing net assets	4,043,476
Interest in Joint Venture @40%	1,617,390
Goodwill	1,073,511
Carrying value	2,690,901

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

	31 December 2018 RMB'000
Current	
Assets	3,255,903
Liabilities	(1,208,985)
Non-current	
Assets	567,260
Liabilities	-
Net assets	2,614,178

Summarised financial information

	2018 RMB'000
Revenue	3,569,315
Profit before income tax	739,843
Income tax expense	(86,079)
Profit for the year	653,764
Other comprehensive income	-
Total comprehensive income	653,764
Dividends received from joint venture	241,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

23. 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

	2018 RMB'000
Opening net assets at acquisition day	2,443,896
Profit for the period	653,764
Dividends paid to shareholders	(483,482)
Closing net assets	2,614,178
Interest in Joint Venture @50%	1,307,089
Goodwill	-
Carrying value	1,307,089

Set out below are the summarised financial information for Shanghai Yun Zhong Xin Enterprise Development Co., Ltd. which are accounted for using the equity method.

	31 December 2018 RMB'000
Current	
Assets	1,228,231
Liabilities	(29,381)
Non-current	
Assets	91
Liabilities	-
Net assets	1,198,941

Summarised financial information

	2018 RMB'000
Revenue	-
Loss before income tax	(1,059)
Income tax expense	-
Loss for the year	(1,059)
Other comprehensive income	-
Total comprehensive income	(1,059)
Dividends received from joint venture	-

23. 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

	2018 RMB'000
Opening net assets at acquisition day	1,200,000
Profit for the period	(1,059)
Dividends paid to shareholders	-
Closing net assets	1,198,941
Interest in Joint Venture @55%	659,417
Goodwill	-
Carrying value	659,417

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

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' profit for the year	41,073	32,307
Share of the joint ventures' other comprehensive income	-	-
Share of the joint ventures' total comprehensive income	41,073	32,307
Aggregate carrying amount of the Group's investments in the joint ventures (excluding impairment)	289,966	206,729

24. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Investments, at cost:		
Share of net assets	8,613,070	6,316,334
Impairment	(7,008)	(7,008)
	8,606,062	6,309,326
Share of associates' results in the consolidated statement of profit or loss	833,944	772,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

24. INVESTMENTS IN ASSOCIATES (CONTINUED)

Set out below are the associates of the Group as at 31 December 2018, 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
Shanghai Schneider 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
Shanghai Schneider 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
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

24. 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
China Energy Engineering Group Co., Ltd. 中國能源工程集團有限公司	PRC	RMB 3,333,340	20%	-	Production and sale of energy equipments
Suzhou Thvow Technology Co., Ltd. ("Suzhou Thvow") 蘇州天沃科技股份有限公司	PRC	RMB 882,914	15%	-	Provide one-stop EPC project package service
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. ("Chengdu Ri Yong") *& 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有限公司#*	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	EUR 7,744	-	19.67%	Production and sale of solar cells and lithium batteries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

24. 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.

& The Group is entitled to appoint a board member of Chengdu Ri Yong. 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 five significant associates including Mitsubishi Electric Shanghai Mechanical &Electrical Elevator Co., Ltd. ("Mitsubishi Electric"), Shanghai Schnetider Power Distribution Electric Apparatus Co., Ltd. ("Schneider Electric"), China Energy Engineering Group Co., Ltd. ("Sinomec"), Suzhou Thvow, and Yileng Carrier Air Conditioning Equipment Co., Ltd. ("Yileng Carrier") which are accounted for using the equity method.

24. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarised balance sheet and statement of comprehensive income

	Mitsubishi Electric	Schneider Electric	Suzhou Thvow	Sinomec	Yileng Carrier
	2018 RMB'000	2018 RMB'000	2018 RMB'000	2018 RMB'000	2018 RMB'000
Current					
Assets	2,159,410	983,491	19,910,884	8,007,502	1,724,111
Liabilities	(1,106,095)	(728,363)	(20,106,942)	(6,423,608)	(1,008,032)
Non-current					
Assets	372,637	116,167	5,953,867	8,887,259	568,081
Liabilities	-	-	(1,400,524)	(5,209,457)	-
Net assets	1,425,952	371,295	4,357,285	5,261,696	1,284,160
Revenue	4,652,685	2,297,088	7,704,190	7,026,417	3,044,405
Profit before tax from continuing operations	181,299	730,146	201,502	207,901	376,968
Profit for the year from continuing operations	137,244	547,652	185,488	177,267	282,911
Other comprehensive income	-	-	49	-	-
Total comprehensive income	137,244	547,652	185,537	177,267	282,911
Dividends received from associates	43,302	163,051	-	-	150,766

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

24. 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 2018 RMB'000	Schneider Electric 2018 RMB'000	Suzhou Thvow 2018 RMB'000	Sinomec 2018 RMB'000	Yileng Carrier 2018 RMB'000
Opening net asset attributable to the parent company	1,379,424	638,830	2,712,090	2,862,741	1,486,870
Profit for the period attributable to the parent company	137,499	547,720	74,652	104,081	299,843
Dividend distribution to shareholders for the year	(90,971)	(815,255)	-	-	(502,553)
Other comprehensive income attributable to the parent company	-	-	-	-	-
Closing net assets attributable to the parent company	1,425,952	371,295	3,797,413	3,714,022	1,284,160
Share of associates	47.6%	20%	15%	20%	30%
Interest in associates	678,753	74,259	569,612	742,804	385,248
Goodwill	-	-	95,331	62,396	-
Carrying value	678,753	74,259	664,943	805,200	385,248

25. DEFERRED TAX

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

	As of 31 December	
	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	3,144,933	2,876,295
– Deferred tax asset to be recovered within 12 months	2,070,572	1,415,116
	5,215,505	4,291,411
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	(191,489)	(192,679)
– Deferred tax liability to be recovered within 12 months	(851,688)	(453,588)
	(1,043,177)	(646,267)

25. DEFERRED TAX (CONTINUED)

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

Deferred tax assets

	31 December 2018						
	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 2018	185,914	2,724,683	-	1,220,005	37,872	122,937	4,291,411
Deferred tax credited /(charged) to the consolidated statement of profit or loss during the year (Note 11)	103,564	412,863	-	396,338	(25,519)	84,781	972,027
Deferred tax charged to equity during the year	-	-	-	-	-	(47,933)	(47,933)
Gross deferred tax assets at 31 December 2018	289,478	3,137,546	-	1,616,343	12,353	159,785	5,215,505
Offset against deferred tax liabilities*							(414,282)
Net deferred tax assets at 31 December 2018							4,801,223

Deferred tax liabilities

	31 December 2018					
	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 2018	(192,679)	(158,685)	(70,972)	(453)	(223,478)	(646,267)
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (Note 11)	1,191	1,705	(453,213)	(2,174)	55,581	(396,910)
Gross deferred tax liabilities at 31 December 2018	(191,488)	(156,980)	(524,185)	(2,627)	(167,897)	(1,043,177)
Offset against deferred tax assets*						414,282
Net deferred tax liabilities at 31 December 2018						(628,895)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

25. DEFERRED TAX (CONTINUED)

Deferred tax assets

	31 December 2017						
	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 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
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

	31 December 2017					
	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 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)

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

25. DEFERRED TAX (CONTINUED)

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

	2018 RMB'000	2017 RMB'000
Tax losses	4,335,739	4,038,005
Deductible temporary differences	3,333,271	3,940,514
	7,669,010	7,978,519

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:

	2018 RMB'000	2017 RMB'000
2018	-	202,912
2019	228,448	271,888
2020	1,132,268	1,184,626
2021	965,721	1,008,669
2022	1,235,924	1,369,910
2023 and after	773,378	-
	4,335,739	4,038,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

26. OTHER NON-CURRENT ASSETS

	2018 RMB'000	2017 RMB'000
Long-term prepaid expense	278,844	247,150
Prepaid of equity investment	-	1,932,522
Long-term receivables of warranty	-	1,879,074
Others	1,309	276,984
	280,153	4,335,730

27. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	5,955,926	5,126,739
Work in progress	12,429,180	15,200,108
Finished goods	11,454,082	10,763,741
	29,839,188	31,090,588
Less: provision for impairment	(1,909,891)	(2,033,237)
	27,929,297	29,057,351

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB45,846,204,000 (2017: RMB35,048,125,000), which included inventory net write-down of RMB1,279,807,000 (2017: RMB903,107,000).

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Classification of financial assets at fair value through profit or loss

(i) The Group classifies the following financial assets at fair value through profit or loss (FVPL):

(a) debt investments that do not qualify for measurement at either amortised cost (see note 19 above) or FVOCI (note 20);
(b) equity investments that are held for trading, and
(c) equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

	2018 RMB'000	2017 RMB'000
Non-current assets		
Unlisted preference shares	4,263,832	—
Listed Shares	1,097,014	—
	5,360,846	—
Current assets		
Funds	3,541,849	—
Finance products	466,255	—
Equity Investment	57,653	—
Bonds	19,805	—
Others	333,888	—
	4,419,450	—

(ii) Amounts recognised in profit or loss

During the year, the following gains were recognised in profit or loss:

	2018 RMB'000	2017 RMB'000
Fair value gains on equity investments at FVPL recognised in other gains (see note 7)	111	—
Fair value gains on debt instruments at FVPL recognised in other gains (see note 7)	19,197	—

(iii) Risk exposure and fair value measurements

Information about the Group's exposure to price risk is provided in note 3.1. For information about the methods and assumptions used in determining fair value please refer to note 3.3.

(iv) Previous accounting policy: Classification of financial assets at fair value through profit or loss

In 2017, the Group classified financial assets at fair value through profit or loss if they were acquired principally for the purpose of selling in the short term, i.e. are held for trading. They were presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they were presented as non-current assets. The Group did not elect to designate any financial assets at fair value through profit or loss. See note 2.13 for the Group's other accounting policies for financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

29. CONSTRUCTION CONTRACTS

	2018 RMB'000	2017 RMB'000
Contract costs incurred plus recognised profits less losses	—	41,091,779
Less: progress billings	—	(35,191,082)
provision for impairment	—	(484,248)
Gross amount due from contract customers	—	5,416,449

30. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	25,394,530	34,872,377
Less: provision for impairment	(6,553,937)	(6,966,530)
	18,840,593	27,905,847

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.

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

	2018 RMB'000	2017 RMB'000
Not due	7,187,262	16,861,483
Within 3 months past due	2,300,654	3,738,790
Over 3 months but within 6 months past due	2,130,297	1,913,216
Over 6 months but within 1 year past due	2,329,926	1,521,476
Over 1 year but within 2 years past due	3,838,576	2,011,944
Over 2 years but within 3 years past due	697,799	1,502,487
Over 3 years past due	356,079	356,451
	18,840,593	27,905,847

30. TRADE RECEIVABLES (CONTINUED)

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

	2018 RMB'000	2017 RMB'000
Within 3 months	8,427,635	9,984,902
Over 3 months but within 6 months	1,867,618	3,275,056
Over 6 months but within 1 year	2,508,711	6,199,041
Over 1 year but within 2 years	4,027,095	4,189,666
Over 2 years but within 3 years	1,297,652	2,568,456
Over 3 years	711,882	1,688,726
	18,840,593	27,905,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

30. TRADE RECEIVABLES (CONTINUED)

(i) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(ii) Impairment and risk exposure

Trade receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB171,228,000 for trade receivables, RMB718,873,000 for contract assets. Note 3.1(b) provides for details about the calculation of the allowance.

The loss allowance decreased by a further RMB583,821,000 to RMB6,553,937,000 for trade receivables, increased by a further RMB314,136,000 to RMB1,060,009,000 for contract assets during the current reporting period.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 3.1.

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

	2018 RMB'000	2017 RMB'000
At 31 December	6,966,530	5,511,070
Impact of first time adoption of HKFRS 9	171,228	-
At 1 January	7,137,758	5,511,070
Impairment losses charged	1,243,341	2,091,216
Purchase of subsidiaries	-	420
Impairment losses reversed	(1,521,078)	(627,233)
Amount written off as uncollectible	(47,808)	(8,680)
Transfer to provision for impairment of trade receivables at FVOCI	(258,276)	-
Disposal of subsidiaries	-	(263)
At 31 December	6,553,937	6,966,530

The creation and release of provision for impaired receivables have been included in 'net impairment losses on financial and contract assets' in the consolidated statement of profit or loss (Note 8).

30. TRADE RECEIVABLES (CONTINUED)

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

	2018 RMB'000	2017 RMB'000
The ultimate holding company	16,299	43,570
Associates	81,557	38,859
SEC group companies*	372,707	395,644
Joint ventures	1,544	-
Other related companies	991,704	9,502
	1,463,811	487,575

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

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

In 2018, the Group factored net carrying amount RMB6,278,759,000 of trade receivables (31 December 2017: RMB1,638,104,000) and relieved late payment and credit risk. The Group therefore derecognised the transferred assets in their entirety in its balance sheet.

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

	2018 RMB'000	2017 RMB'000
MYR	-	43,573
EUR	540,868	518,782
USD	4,273,546	5,814,201

The net value of the Group's trade receivables included a receivable from a country with sovereign financial risk of RMB2,370,094,000 (31 December 2017: RMB3,015,066,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

31. DISCOUNTED BILLS RECEIVABLE

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

	2018 RMB'000	2017 RMB'000
Within 3 months	274,796	105,717
Over 3 months but within 6 months	53,587	32,672
Between 6 months and 1 year	-	47,720
	328,383	186,109
Less: Provision for discounted bills receivable	(10,466)	(6,183)
	317,917	179,926

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

	2018 RMB'000	2017 RMB'000
At 1 January	6,183	5,008
Provision	4,283	1,175
At 31 December	10,466	6,183

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).

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

	2018 RMB'000	2017 RMB'000
SEC group companies	240,780	7,249
Associates	30,505	-
Joint ventures	949	-
Other related companies	-	977
	272,234	8,226

The annual interest rates of discounting services provided to related parties ranged from 4.14% to 5.46% for the year ended 31 December 2018 (2017: 3.18% to 7.59%)

32. BILLS RECEIVABLE

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

	2018 RMB'000	2017 RMB'000
Within 3 months	1,862,605	5,023,480
Over 3 months but within 6 months	2,328,499	3,837,733
Over 6 months but within 1 year	1,293,940	1,244,791
	5,485,044	10,106,004

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

	2018 RMB'000	2017 RMB'000
Associates	12,320	28,466
SEC group companies	100,202	20,119
Joint ventures	428	3,000
Other related companies	-	27,317
	112,950	78,902

As at 31 December 2018, no bills receivable (2017: RMB222,389,000) have been pledged to banks as security for issuance of bills payable. Besides, the balances are non-interest-bearing and repayable as and when the bills fall due.

As at 31 December 2018, RMB1,619,788,000 of bills receivable discounted by the Group companies with Finance Company (2017: RMB449,730,000) are included in the consolidated balance of bills receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

33. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments		
- to third parties	11,235,207	8,857,536
- to the ultimate holding company	783	-
- to joint ventures	74,092	159,812
- to associates	312,626	349,740
- to SEC group companies	163,702	99,835
- to other related companies	80,543	84,313
Deposits and other receivables		
- due from third parties	2,322,160	1,427,519
- due from the ultimate holding company	5,370	72
- due from joint ventures	1,103	2,168
- due from associates	2,001,342	22,880
- due from SEC group companies	2,887	6,247
- due from other related companies	438,868	19
Dividend receivables	270,287	79,660
Other current assets	404,514	318,952
VAT deductible	878,430	895,469
	18,191,914	12,304,222
Less: Provision for deposits and other receivables	(159,239)	(134,106)
	18,032,675	12,170,116

The balances due from related parties are mainly related party borrowings.

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

	2018 RMB'000	2017 RMB'000
At 1 January	134,106	162,881
Impairment losses recognised	34,299	4,393
Transfer out due to disposal of subsidiaries	-	(986)
Impairment losses reversed	(9,166)	(31,321)
Others	-	(861)
At 31 December	159,239	134,106

Provision for and reversal of bad debts of prepayments, deposits and other receivables were included in the consolidated statement of net impairment losses on financial and contract assets.

34. INVESTMENT (CURRENT)

	2018 RMB'000	2017 RMB'000
Equity investments:		
- At fair value through profit or loss (listed)	—	54,589
- Available-for-sale (listed), at fair value	—	373,117
	—	427,706
Debt investments:		
- At fair value through profit or loss (listed)	—	21,401
- Available-for-sale (unlisted), at fair value	—	-
	—	21,401
Investment funds:		
- At fair value through profit or loss (listed)	—	5
- Available-for-sale (listed), at fair value	—	477,397
	—	477,402
Investment products:		
- Available-for-sale (unlisted), at fair value	—	8,460,482
Convertible debenture arrangements	—	441,633
Reverse repurchase agreements	—	1,497,130
	—	11,325,754

35. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Financial liabilities at fair value through profit or loss	104,540	-

As at 31 December 2018, financial liabilities at fair value through profit or loss are the fair value of the shares held by other investors of the structured entity incorporated by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

36. DUE FROM CENTRAL BANK, RESTRICTED DEPOSITS, TIME DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	24,096,781	17,255,619
Time deposits	15,801,296	16,700,976
	39,898,077	33,956,595
Less: Restricted deposits	(702,980)	(565,322)
Cash and bank	39,195,097	33,391,273
Less: Non-restricted time deposits with original maturity over three months	(7,352,953)	(10,922,202)
Cash and cash equivalents	31,842,144	22,469,071
Due from central bank	2,577,728	3,267,497

As at 31 December 2018, restricted deposits amounted to RMB702,980,000 (2017: RMB565,322,000) 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 2018 comprised deposit of RMB2,496,715,000 (2017: RMB3,160,806,000) and USD11,804,000 equivalent to RMB81,013,000 (2017: USD16,328,000 equivalent to RMB106,691,000) with the Central Bank, including a statutory reserve of 7% and 5% (2017: 7% and 5%) for RMB and foreign currency, respectively, on customer deposit held by Finance Company.

36. DUE FROM CENTRAL BANK, RESTRICTED DEPOSITS, TIME DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS 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:

	2018		2017	
	Original currency in '000	RMB'000	Original currency in '000	RMB'000
Cash and bank balances:				
United States dollars ("USD")	333,294	2,287,463	405,619	2,650,398
Euro ("EUR")	74,051	581,097	73,989	577,288
Japan yen ("JPY")	141,616	8,766	30,528	1,767
Hong Kong dollars ("HKD")	613,715	537,737	45,984	38,439
Indian rupee ("INR")	44,878	4,398	548,073	55,898
Vietnam dong ("VND")	131,153,333	39,346	24,285,692	6,987
Malaysian ringgit ("MYR")	24,924	41,072	1,647	2,646
Indonesian rupiah ("IDR")	-	-	652,991	315
GBP	7,663	66,482	288	2,528
Other	1,201,158	79,877	390,485	100,487
Time deposits:				
USD	13,100	89,222	54,700	357,242
Indian rupee ("INR")	530,000	52,025	500,000	50,995
Central bank reserve:				
USD	11,804	81,013	16,328	106,690
Restricted deposits:				
USD	-	-	616	4,022

RMB is not freely convertible into other currencies. However, according to Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations in China, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

37. 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:

	2018 RMB'000	2017 RMB'000
Within 3 months	22,081,283	19,587,369
Over 3 months but within 6 months	4,383,890	4,259,538
Over 6 months but within 1 year	5,201,144	2,431,296
Over 1 year but within 2 years	2,983,805	3,537,206
Over 2 years but within 3 years	1,699,875	2,792,630
Over 3 years	2,530,817	1,132,173
	38,880,814	33,740,212

The amounts due to related parties included in trade payables are analysed as follows:

	2018 RMB'000	2017 RMB'000
The ultimate holding company	1,290	93,478
Associates	265,451	193,082
Joint ventures	52,302	16,151
SEC group companies	573,529	459,382
Other related companies	234,387	23,365
	1,126,959	785,458

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 payables are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
USD	73,073	82,141
JPY	8,458	12,908
EUR	994,090	986,507
GBP	1,023	4,618
CHF	19,128	-
MYR	37,157	-
PKR	41,115	-
KWD	64,086	-

37. 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:

	2018 RMB'000	2017 RMB'000
Within 3 months	2,963,409	3,340,992
Over 3 months but within 6 months	2,641,550	2,878,513
Over 6 months but within 1 year	782,539	925,223
	6,387,498	7,144,728

The amounts due to related parties included in bills paybale are analysed as follows:

	2018 RMB'000	2017 RMB'000
Associates	80,620	70,250
Joint ventures	59	-
SEC group companies	25,983	60,952
	106,662	131,202

Bills payable are non-interest-bearing.

38. GOVERNMENT GRANTS

	2018 RMB'000	2017 RMB'000
Government grants	1,419,053	1,495,933
Less: Non-current government grants	(1,004,508)	(1,055,960)
Current government grants	414,545	439,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

39. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Advances from customers	346,506	43,988,736
Other payables	9,398,702	5,524,563
Dividend payable to non-controlling shareholders	304,393	274,796
Accruals	3,862,911	3,447,235
Payroll payable	3,052,431	3,012,595
Due to the ultimate holding company	25,457	29,496
Due to associates	36,938	72,927
Due to Joint ventures	10,042	16,378
Due to SEC group companies	18,286	103,741
Due to other related companies	110,004	157,234
	17,165,670	56,627,701

The Group's balance with related parties is unsecured, non-interest-bearing and repayable on demand or within one year.

40. CUSTOMER DEPOSITS

	2018 RMB'000	2017 RMB'000
Deposits from the ultimate holding company	1,505,901	801,284
Deposits from associates	44,622	53,689
Deposits from SEC Group companies	2,566,194	2,076,110
Deposits from other related companies	97,290	519
Deposits from non-related parties	217,754	392,966
	4,431,761	3,324,568
Repayable:		
On demand	3,821,261	2,974,068
Within 3 months	215,000	165,000
Over 3 months but within 1 year	395,500	185,500
	4,431,761	3,324,568

The annual interest rates of customer deposits provided to related parties range from 0.35% to 2.31% (2017: 0.35% to 2.31%).

41. BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current bank loans						
-Trust loan	1.8-5.5	2019	6,768,648	1.42-5.04	2018	2,260,220
-Trust loan	10% above the base rate	2019	1,195,000	-	-	-
-Mortgage loan	4.57-5.44	2019	169,991	4.57-5.22	2018	222,239
-Guaranteed loan	-	-	-	5%-25% above the base rat	2018	16,314
-Guaranteed loan	-	-	-	4.3-4.57	2018	8,100
-Pledge loan	3 months Euribor + 1.35%	2019	126,733	3 months Euribor + 1.35%	2018	32,635
-Pledge loan	-	-	-	4.56	2018	14,000
-Factoring of trade receivables (note 30)	5.00	2019	282,590	-	-	-
Current portion of long-term bank loan						
-Trust loan	3.3-5.46	2019	1,563,155	4.28	2018	510,195
-Trust loan	Libor+365bp	2019	30,898	Libor+365bp	2018	46,617
-Trust loan	5% below the two-year base rate	2019	200	-	-	-
-Trust loan	Export Seller's Credit Interest Rate - Level 2	2019	69,800	-	-	-
-Trust loan	5%-10% below the three-year base rate	2019	10,200	-	-	-
-Guaranteed loan	4.66	2019	500	-	-	-
-Guaranteed loan	0.05% below the base rate	2019	20,000	-	-	-
-Pledge loan	3 months Euribor + 1.75%	2019	55,751	3 months Euribor + 1.75%	2018	113,630
-Mortgage loan	4.28	2019	57,650	2.70	2018	151
			10,351,116			3,224,101
Non-current bank loans						
-Trust loan	Base rate	2020	730,000	-	-	-
-Trust loan	PSL rate+ 130BP	2020	750,000	-	-	-
-Trust loan	5% below the two-year base rate	2020	494,800	-	-	-
-Trust loan	Higher than or equal to general Export Seller's Credit Interest Rate	2020	750,000	-	-	-
-Trust loan	5.23-5.46	2020	288,400	-	-	-
-Trust loan	5%-10% below the three-year base rate	2021	3,029,000	-	-	-
-Trust loan	4.99	2021	30,396	-	-	-
-Trust loan	Export Seller's Credit Interest Rate - Level 2	2023	380,000	-	-	-
-Trust loan	-	-	-	1.80-4.51	2019	2,271,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

41. BORROWINGS (CONTINUED)

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
-Mortgage loan	6.37	2025	59,000	-	-	-
-Mortgage loan	2.72	2031	50,473	2.72	2031	52,284
-Mortgage loan	-	-	-	4.75	2019	58,650
-Guaranteed loan	4.66	2025	179,358	-	-	-
-Guaranteed loan	4.90	2026	36,205	-	-	-
-Guaranteed loan	3.15-4.79	2027	504,549	3.15-4.30	2027	235,071
-Guaranteed loan	-	-	-	0.05% below the base rate	2019	20,000
-Pledge loan	3 months Euribor + 2.00%	2020	555,655	3 months Euribor + 2.00%	2020	547,841
-Pledge loan	4.9-5.39	2028	585,000	-	-	-
-Pledge loan	4.75	2030	1,166,000	4.75	2030	900,000
-Pledge loan	-	-	-	3 months Euribor + 1.75%	2019	59,292
			9,588,836			4,144,184

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable		
within one year or demand	10,351,116	3,224,101
in the second year	3,568,855	2,408,988
in the third to fifth years inclusive	3,439,396	547,841
beyond five years	2,580,585	1,187,355
	19,939,952	7,368,285

41. BORROWINGS (CONTINUED)

All borrowings are denominated in RMB, except for the following bank loans:

	2018		2017	
	Original currency in '000	RMB equivalent RMB'000	Original currency in '000	RMB equivalent RMB'000
Foreign currency borrowing balances				
USD	267,733	1,821,611	180,114	1,176,904
EUR	146,339	1,121,675	230,484	1,798,307
MYR	-	-	41,000	65,891
GBP	-	-	63	553
HKD	450,000	394,290	-	-

As at 31 December 2018, 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 RMB554,128,000 (31 December 2017: building with net carrying amount RMB404,395,000) (Note 14).

As at 31 December 2018, RMB570,000,000 (31 December 2017: Nil) of the Group's bank loans are secured by pledges over certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB40,825,000, and pledges over the charge right of project after completion (Note 16).

As at 31 December 2018, none of the Group's bank loans are secured by mortgages over certain of the Group's trade receivables (31 December 2017: trade receivables with net carrying amount RMB19,198,000) (Note 30).

As at 31 December 2018, RMB738,139,000 (31 December 2017: RMB753,398,000) of the Group's bank loans are secured by mortgages over certain of the Group's subsidiary shares.

As at 31 December 2018, the trade receivables were factored with recourse to obtain certain bank facilities RMB282,590,000 (31 December 2017: none) (Note 30).

	Carrying amount		Fair values	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Floating rate bank loans	6,689,454	627,133	6,689,454	627,133
Fixed rate bank loans	2,899,382	3,517,051	2,880,177	3,428,964
	9,588,836	4,144,184	9,569,631	4,056,097

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% (2017: 4.75%) and are within level 2 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

42. 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 2018	2,147,985	1,898,443	155,175	51,554	4,253,157
Additional provisions	903,350	1,128,950	85,526	166,950	2,284,776
Reversal during the year	(210,575)	(284,120)	-	(10,000)	(504,695)
Amounts utilised during the year	(470,874)	(1,011,937)	(94,558)	(42,543)	(1,619,912)
At 31 December 2018	2,369,886	1,731,336	146,143	165,961	4,413,326
Less: current portion - repayable within 12 months	2,213,558	1,731,336	21,304	165,961	4,132,159
Non-current portion	156,328	-	124,839	-	281,167

	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	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 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.

42. PROVISIONS (CONTINUED)

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 2018. 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.

43. BONDS

	2018			2017		
	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
			-			1,599,506
Bonds payable due after one year						
- Electric convertible bond (b)	5.03	2021	5,572,501	5.03	2021	5,383,674
- Electric euro bond (c)	1.19	2020	4,704,244	1.19	2020	4,674,353
- 18 Electric MTN001(d)	4.39	2023	2,472,500	-	-	-
			12,749,245			10,058,027
			12,749,245			11,657,533

	2018 RMB'000	2017 RMB'000
Analysed as：		
Within one year or on demand	-	1,599,506
Within two years	4,704,244	-
Within three to five years, including head and tail	8,045,001	10,058,027
	12,749,245	11,657,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

43. BONDS (CONTINUED)

	2018		2017	
	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	599,473	4,704,244	599,099	4,674,353
	599,473	4,704,244	599,099	4,674,353

(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 and paid the principal and interest of 12 Electric bond 02 on 28 February 2018.

(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, at RMB10.37 per share since 9 November 2017 due to the issue of new shares,at RMB10.28 per share since 28 August 2018, at RMB5.19 per share since 12 December 2018.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 five years and annual interest rate of 1.125%.

(d) On 13 December 2018, the Group issued a middle-term note of RMB2.5 billion,abbreviated as 18 Electric MTN001with a term of five years and annual interest rate of 4.15%.

44. OTHER NON-CURRENT LIABILITIES

	2018 RMB'000	2017 RMB'000
Finance leases deposits	594,743	756,918
Defined benefit obligations	120,835	138,778
Relocation compensation	61,529	317,305
R&D Subsidies	41,890	42,315
Non-interest-bearing loans	-	1,258
Due to SEC group companies	1,320	-
Due to the ultimate holding company	-	32,620
Others	189,009	175,732
	1,009,326	1,464,926

45. SHARE CAPITAL

Shares

	2018 RMB'000	2017 RMB'000
Registered, issued and fully paid:		
A shares of RMB1.00 each	11,752,276	11,752,269
H shares of RMB1.00 each	2,972,912	2,972,912
Total	14,725,188	14,725,181

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	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 31 December 2016, 1 January 2017	13,431,156,430	13,431,156	8,200,668	21,631,824
Additions	1,294,024,287	1,294,025	4,496,721	5,790,746
At 31 December 2017, 1 January 2018	14,725,180,717	14,725,181	12,697,389	27,422,570
Additions	6,742	7	24	31
31 December 2018	14,725,187,459	14,725,188	12,697,413	27,422,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

46. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital reserve

The capital reserve of the Group includes the share premium and the non-distributable reserves of the Company and its subsidiaries recognised in accordance with the accounting and financial regulations of the PRC.

Contributed surplus

The Group's contributed surplus represents the excess of (i) the Company's cost of investments in the net assets of subsidiaries and an associate acquired from SEC 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 2018, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB10,804,654,000 (2017: RMB11,186,881,000).

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.

47. CASH FLOW INFORMATION

(a) Cash flows from operating activities

	Year ended 31 December	
	2018 **RMB'000**	**2017** **RMB'000**
Cash flows from operating activities		
Profit before tax	6,008,116	5,365,249
Adjustments for:		
Interest income on debt investments	(18,966)	(350)
Dividend income from equity investments and investment funds	(16,546)	(152,406)
Losses/(Gains) on disposal of items of property, plant and equipment, net	1,996	(132,658)
Losses on disposal of goodwill	12,483	-
Gains on disposal of land use rights	(48,982)	-
Gains on disposal of subsidiaries	(104,663)	(13,647)
Gains on disposal of associates	(7,668)	(19,757)
Investments at fair value through profit or loss:		
Unrealised fair value (losses)/gains, net	(92,122)	3,919
Realised fair value gains, net	72,955	14,698
Derivative financial instruments - transactions not qualifying as hedges:		
Unrealised fair value gains, net	(141)	(236)
Income on debt investments	(254,430)	-
Realised gains on available-for-sale investments (transferred from equity)	-	(1,395,268)
Other gains	(8,477)	(15,904)
Depreciation of property, plant and equipment	1,640,624	1,739,061
Depreciation of investment properties	84,566	100,514
Amortisation of prepaid land lease payments	252,875	208,648
Amortisation of intangible assets	131,509	127,056
Depreciation of other non-current assets	74,208	73,811
Early retirement benefits and staff severance costs	81,872	26,392
Write-down of inventories to net realisable value	1,279,807	903,107
	3,080,900	1,466,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

47. CASH FLOW INFORMATION (CONTINUED)

(a) Cash flows from operating activities (continued)

	Year ended 31 December	
	2018 RMB'000	**2017 RMB'000**
Cash flows from operating activities (continued)		
Share of profits of joint ventures	167,798	(570,118)
Share of profits of associates	(833,944)	(772,374)
(Reversal)/Impairment of trade receivables and other receivables	(244,299)	1,437,055
Impairment of contract assets	372,434	—
Impairment of discounted bills receivable	4,283	1,175
Impairment of items of property, plant and equipment	27,918	2,242
Impairment of available-for-sale investments	—	8,627
Impairment of goodwill	151,731	15,731
Impairment of associate	-	7,008
Provision for product warranty	692,775	809,298
Provision for onerous contracts	844,830	886,157
Other provisions	156,950	(11,370)
Finance costs	939,563	458,258
Exchange (losses)/gains, net	(225,260)	19,993
Others	(1,339,783)	(975,618)
	714,996	1,316,064
Increase in inventories	(110,706)	(7,656,112)
Increase in contract assets	(21,423,771)	—
Increase in contract liabilities	36,566,071	—
Decrease/(Increase) in construction contracts	5,900,697	(586,403)
Decrease/(Increase) in trade receivables and other receivables	8,658,335	(6,768,682)
Increase in other non-current assets	-	(213,269)
(Decrease)/Increase in trade payables, bills payable, other payables and accruals	(35,553,722)	2,158,788
Utilisation of product warranty provision and other provisions	(1,619,912)	(1,461,788)
Cash inflow/(outflow) from operations	2,221,004	(6,379,173)

47. CASH FLOW INFORMATION (CONTINUED)

(b) Net debt reconciliation

	Year ended 31 December	
	2018	2017
Net Debt	**RMB'000**	**RMB'000**
Cash and cash equivalents	**31,842,144**	22,469,071
Liquid investments	**77,458**	75,995
Borrowings-repayable within one year	**(10,351,116)**	(3,224,101)
Borrowings-repayable after one year	**(9,588,836)**	(4,144,184)
Bonds-repayable within one year	**-**	(1,599,506)
Bonds-repayable after one year	**(12,749,245)**	(10,058,027)
Net Debt	**(769,595)**	3,519,248
Cash and Liquid investments	**31,919,602**	22,545,066
Gross Debt-fixed interest rates	**(25,999,743)**	(18,209,489)
Gross Debt-variable interest rates	**(6,689,454)**	(816,329)
Net Debt	**(769,595)**	3,519,248

	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 2017	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
Cash flows	9,289,185	1,463	(5,863,039)	(6,714,221)	1,600,000	(2,472,500)	(4,159,112)
Foreign exchange adjustments	83,888	-	(3,716)	(6,191)	-	(26,959)	47,022
Other non-cash movements	-	-	-	-	(494)	(191,759)	(192,253)
Liabilities due after 1 year transferred to due within 1 year	-	-	(1,334,760)	1,334,760	-	-	-
Disposal of subsidiary	-	-	74,500	-	-	-	74,500
Acquisition of subsidiary	-	-	-	(59,000)	-	-	(59,000)
Net debt as at 31 December 2018	31,842,144	77,458	(10,351,116)	(9,588,836)	-	(12,749,245)	(769,595)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

48. CONTINGENT LIABILITIES AND FINANCIAL GUARANTEES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Guarantees given to banks in connection with facilities granted to:		
- Associates	4,351,150	297,290
Guarantees given to banks in connection with facilities utilised by:		
- Associates	2,530,733	186,691
Non-financial guarantee letters issued by Finance Company on behalf of:		
- Associates	4,084	2,631
- Joint ventures	2,721	-
	6,805	2,631

(a) As of 31 December 2018, non-financial guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB27,126,815,000 (2017: RMB21,991,183,000).

(b) As of 31 December 2018, contingent liabilities amounted to RMB174,693,000 relating to pending lawsuits and arbitration (2017: RMB62,357,000).

49. 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 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	98,643	99,823
In the second to fifth years, inclusive	165,161	234,017
After five years	73,070	19,988
	336,874	353,828

49. 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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	274,343	281,331
In the second to fifth years, inclusive	325,081	338,939
After five years	40,103	49,401
	639,527	669,671

50. COMMITMENTS

As at 31 December 2018, the Group had the following capital commitments:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
In respect of the acquisition of		
- Land and buildings	195,134	148,170
- Plant and machinery	1,313,667	972,679
	1,508,801	1,120,849
Authorised, but not contracted for:		
In respect of the acquisition of		
- Plant and machinery	122,920	-
	1,631,721	1,120,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

51. BUSINESS COMBINATIONS

(a) Main subsidiaries involved in business combinations involving enterprises not under common control in the current year

Acquiree	Time of acquisition	Acquisition cost RMB'000	Equity acquired (%)	Way of acquisition	Acquisition date	Determination basis for acquisition date	Acquiree's revenue from the acquisition date to end of year RMB'000	Acquiree's net profit from the acquisition date to end of year RMB'000	Acquiree's net cash flows from the acquisition date to end of year RMB'000
Guo Xuan New Energy (Suzhou) Co., Ltd.	17 June 2018	310,000	100%	Cash	17 June 2018	Control transfer	150,863	(1,450)	8,685
Shanghai Shuluo Enterprise Development Co., Ltd.	31 July 2018	197,990	79.39%	Cash	31 July 2018	Control transfer	-	45	203
Shen Rong International Asset Management Co., Ltd.	31 August 2018	6,281	100%	Cash	31 August 2018	Control transfer	-	(458)	16,943
Ningbo Haifeng Environmental Protection Co., Ltd.	30 November 2018	756,000	100%	Cash	30 November 2018	Control transfer	-	168	29,641
Wujiang Taihu Industrial Waste Treatment Co., Ltd.	30 November 2018	342,000	100%	Cash	30 November 2018	Control transfer	-	(894)	49,373

(b) Details of the costs of combination and goodwill recognised are as follows:

	Guo Xuan New Energy (Suzhou) Co., Ltd.	Shanghai Shuluo Enterprise Development Co., Ltd.	Shen Rong International Asset Management Co., Ltd.
Costs of combination -			
Cash	310,000	197,990	6,281
Total cost of combination	310,000	197,990	6,281
Less: Share of fair value of the identifiable net assets acquired	260,520	197,990	6,281
Goodwill	49,480	-	-

	Ningbo Haifeng Environmental Protection Co., Ltd.	Wujiang Taihu Industrial Waste Treatment Co., Ltd.
Costs of combination -		
Cash	756,000	342,000
Total cost of combination	756,000	342,000
Less: Share of fair value of the identifiable net assets acquired	179,953	63,462
Goodwill	576,047	278,538

51. BUSINESS COMBINATIONS (CONTINUED)

(c) Purchase consideration – cash outflow

	Guo Xuan New Energy (Suzhou) Co., Ltd.	Shanghai Shuluo Enterprise Development Co., Ltd.	Shen Rong International Asset Management Co., Ltd.
Cash	310,000	197,990	6,281
Less: Balances acquired – Cash and cash equivalents	478	158,231	300
Net outflow of cash – investing activities	309,522	39,759	5,981

	Ningbo Haifeng Environmental Protection Co., Ltd.	Wujiang Taihu Industrial Waste Treatment Co., Ltd.
Cash	756,000	342,000
Less: Balances acquired – Cash and cash equivalents	21,454	2,275
Net outflow of cash – investing activities	734,546	339,725

(d) Acquiree's assets and liabilities at the acquisition date are analysed below:

Guo Xuan New Energy (Suzhou) Co., Ltd.

	Fair value at the acquisition date RMB'000	Carrying amount at the acquisition date RMB'000	Carrying amount at 31 December 2017 RMB'000
Cash and bank	478	478	122
Prepayments, deposits and other receivables	6,343	6,343	189
Trade receivables	192,680	192,680	229,715
Inventories	126,935	121,922	119,319
Other current assets	3,143	3,143	4,084
Property, plant and equipment	97,632	96,117	89,628
Intangible assets	30,733	24,918	24,668
Other non-current assets	963	963	1,228
Less: Trade payables	194,797	194,797	212,793
Employee benefits payable	1,498	1,498	3,343
Other liabilities	2,092	241	1,850
Net assets	260,520	250,028	250,967
Less: Minority interests	-	-	-
Net assets obtained	260,520	250,028	250,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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51. BUSINESS COMBINATIONS (CONTINUED)

(d) Acquiree's assets and liabilities at the acquisition date are analysed below (continued):

Shanghai Shuluo Enterprise Development Co., Ltd.

	Fair value at the acquisition date RMB'000	Carrying amount at the acquisition date RMB'000	Carrying amount at 31 December 2017 RMB'000
Cash and bank	158,231	158,231	79,962
Trade receivables	-	-	78,464
Property, plant and equipment	26,383	5,437	5,764
Intangible assets	65,004	8,644	8,890
Less: Employee benefits payable	187	187	188
Other liabilities	42	(350)	(342)
Net assets	249,389	172,475	173,234
Less: Minority interests	51,399	35,547	35,704
Net assets obtained	197,990	136,928	137,530

Shen Rong International Asset Management Co., Ltd.

	Fair value at the acquisition date RMB'000	Carrying amount at the acquisition date RMB'000	Carrying amount at 31 December 2017 RMB'000
Cash and bank	300	300	533
Other current assets	6	6	6
Intangible assets	6,086	-	-
Less: Other liabilities	111	111	106
Net assets	6,281	195	433
Less: Minority interests	-	-	-
Net assets obtained	6,281	195	433

51. BUSINESS COMBINATIONS (CONTINUED)

(d) Acquiree's assets and liabilities at the acquisition date are analysed below (continued):

Ningbo Haifeng Environmental Protection Co., Ltd.

	Fair value at the acquisition date RMB'000	Carrying amount at the acquisition date RMB'000	Carrying amount at 31 December 2017 RMB'000
Cash and bank	21,454	21,454	7,493
Prepayments, deposits and other receivables	29,381	29,381	122
Trade receivables	16,177	16,177	26
Property, plant and equipment	80,273	77,210	38,843
Intangible assets	126,878	125,846	128,690
Other non-current assets	15	15	-
Less: Borrowings	59,000	59,000	-
Trade payables	21,612	21,612	5,052
Employee benefits payable	59	59	41
Other liabilities	13,554	13,554	170,214
Net assets	179,953	175,858	(133)
Less: Minority interests	-	-	-
Net assets obtained	179,953	175,858	(133)

Wujiang Taihu Industrial Waste Treatment Co., Ltd.

	Fair value at the acquisition date RMB'000	Carrying amount at the acquisition date RMB'000	Carrying amount at 31 December 2017 RMB'000
Cash and bank	2,275	2,275	480
Prepayments, deposits and other receivables	1,005	1,005	1,578
Accounts receivable	21,830	21,830	14,617
Inventories	3,672	3,672	4,792
Property, plant and equipment	83,603	81,678	42,322
Intangible assets	14,095	13,121	-
Other non-current assets	360	360	30
Less: Trade payables	30,862	30,862	6,748
Other liabilities	32,516	32,516	27,383
Net assets	63,462	60,563	29,688
Less: Minority interests	-	-	-
Net assets obtained	63,462	60,563	29,688

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

52. DISPOSAL OF SUBSIDIARIES

(a) On 30 May 2018, the Company disposed its wholly-owned subsidiary, Shanghai Electric Bearing Co., Ltd. Therefore, the Group excluded Shanghai Electric Bearing Co., Ltd. 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	58,849
Less: Net assets disposed	(56,766)
Gains recognised in capital reserve	2,083

(b) On 28 December 2018, the Company disposed its wholly-owned subsidiary, Shanghai Electric valve Co., Ltd. Therefore, the Group excluded Shanghai Electric Valve Co., Ltd. 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	179,304
Less: Net assets disposed	(74,641)
Gains recognised in consolidated statement of profit or loss	104,663

53. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of SEC, 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:

	2018 RMB'000	2017 RMB'000
Purchase of materials from:		
Associates	2,989,960	2,694,338
SEC group companies	54,281	51,434
Other related companies	1,968,701	1,757,330
Joint ventures	554,133	581,568
	5,567,075	5,084,670
Sales of materials to:		
The ultimate holding company	5,667	6,959
Associates	133,781	124,780
SEC group companies	273,053	374,158
Other related companies	4,574,185	3,017,404
Joint ventures	20,623	-
	5,007,309	3,523,301
Construction services from:		
Other related companies	1,880,066	2,999,922
Sale of scrap and spare parts to:		
Associates	3,931	7,352
Purchases of services from:		
Associates	115,891	1,388
SEC group companies	28,292	54,466
Other related companies	489	11,020
	144,672	66,874
Disposal of subsidiaries:		
The ultimate holding company	238,153	-
Provision of services to:		
The ultimate holding company	9,049	4,962
Associates	6,428	55,263
SEC group companies	79,869	77,760
Other related companies	182,635	-
	277,981	137,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

53. 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 the Group collectively 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 balances with this related party for the year ended 31 December 2018 have been included above.

	2018 RMB'000	2017 RMB'000
Rental income from:		
Associates	5,652	16,905
SEC group companies	23,849	13,848
Other related companies	-	599
	29,501	31,352
Rental fee to:		
The ultimate holding company	6,297	24,614
SEC group companies	4,698	5,237
	10,995	29,851

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 2018, the Group provided guarantees with amount no more than RMB4,000,000,000 for its borrowings to the associate, Suzhou Thvow, RMB300,000,000 to the associate, Chongqing Shenhua Thin Film Solar Power Technology Co., Ltd. and RMB51,150,000 to the associate, Nabtesco (China) Precision Equipment Co., Ltd., respectively. As at 31 December 2018, the actual guarantees to Suzhou Thvow, Chongqing Shenhua Thin Film Solar Power Technology Co., Ltd. and Nabtesco (China) Precision Equipment Co., Ltd. amounted to RMB2,270,000,000, RMB213,599,000 and RMB47,134,000, respectively; and also Finance Company has issued non-financial guarantee letters on behalf of certain related parties totaling to RMB6,805,000 (31 December 2017: RMB2,631,000).

Suzhou Thvow will provide counter guarantee to the Group when the specific guarantee quota above is used.

The Group provided the ultimate holding company with a counter-guarantee of no more than USD168,800,000 (equivalent to RMB1,140,000,000).

53. RELATED PARTY TRANSACTIONS (CONTINUED)

(3) Deposits and loan services provided to related parties by Finance Company

	2018 RMB'000	2017 RMB'000
Interest expenses for customer deposits:		
The ultimate holding company	7,844	5,529
SEC group companies	16,783	12,569
Associates	263	267
Other related companies	208	15
	25,098	18,380
Interest income for loans and bills discounted:		
The ultimate holding company	107,203	79,435
SEC group companies	147,804	160,134
Associates	6,820	12,300
Other related companies	764	4,843
	262,591	256,712

Interest rates for customer deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by Central Bank.

(4) Balances due from/to related parties

The balances due from/to related parties mainly resulted from loans, trading transactions, customer deposits, discounted bills receivable and miscellaneous amounts reimbursable by/to the related parties. Further details are set out in Notes 19, 30, 31, 32, 33, 37, 39 and 40, 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:

	2018 RMB'000	2017 RMB'000
Fees	771	750
Salaries, bonuses and allowances received from the Group	13,005	5,960
Pension scheme contributed by the Group	179	128
Other social benefit schemes contributed by the Group	211	150
	14,166	6,988

Further details of directors' and supervisors' emoluments are included in Note 57 to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

54. 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

	2018				
	Financial assets at fair value through profit or loss	Derivative financial instruments designated as hedging instruments	Financial assets at amotised cost	Financial assets at financial value through other comprehensive income	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans receivable	-	-	6,378,870	-	6,378,870
Lease receivables	-	-	9,370,471	-	9,370,471
Equity investments	5,418,499	-	-	-	5,418,499
Debt investments	19,805	-	-	5,787,735	5,807,540
Investment products	466,255	-	-	-	466,255
Reverse repurchase agreements	-	-	2,308,712	-	2,308,712
Trade receivables	-	-	18,840,593	2,724,919	21,565,512
Discounted bills receivable	-	-	317,917	-	317,917
Bills receivable	-	-	5,485,044	604,834	6,089,878
Financial assets included in prepayments, deposits and other receivables	-	-	4,882,775	-	4,882,775
Investment funds	3,541,849	-	-	-	3,541,849
Derivative financial instruments	333,888	788	-	-	334,676
Due from the Central Bank	-	-	2,577,728	-	2,577,728
Restricted deposits	-	-	702,980	-	702,980
Cash and cash equivalents	-	-	31,842,144	-	31,842,144
Time deposits with original maturity over three months	-	-	7,352,953	-	7,352,953
	9,780,296	788	90,060,187	9,117,488	108,958,759

54. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	2018			
	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	-	-	38,880,814	38,880,814
Bills payable	-	-	6,387,498	6,387,498
Financial liabilities included in other payables and accruals	-	-	12,259,132	12,259,132
Customer deposits	-	-	4,431,761	4,431,761
Bank and other borrowings	-	-	19,939,952	19,939,952
Financial liabilities included in other non-current liabilities	-	-	785,072	785,072
Bonds	-	-	12,749,245	12,749,245
Financial liabilities at fair value through profit or loss	104,540	-	-	104,540
Derivative financial instruments	-	5,168	-	5,168
	104,540	5,168	95,433,474	95,543,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

54. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets

	2017				
	Financial assets at fair value through profit or loss RMB'000	Derivative financial instruments designated as hedging instruments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Loans receivable	-	-	6,968,667	-	6,968,667
Lease receivables	-	-	11,386,866	-	11,386,866
Equity investments	54,589	-	-	765,654	820,243
Debt investments	21,401	-	-	8,634,729	8,656,130
Investment products	-	-	-	51,930	51,930
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	-	-	1,404,459	-	1,404,459
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	96,672,991	9,951,896	107,158,119

54. 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	-	-	8,797,860	8,797,860
Customer deposits	-	-	3,324,568	3,324,568
Bank and other borrowings	-	-	7,368,285	7,368,285
Financial liabilities included in other non-current liabilities	-	-	943,706	943,706
Bonds	-	-	11,657,533	11,657,533
Derivative financial instruments	-	8,537	-	8,537
	-	8,537	72,976,892	72,985,429

55. SUBSEQUENT EVENTS

a) On 1 February 2019, Suzhou Thvow held its first general meeting of shareholders and has elected non-executive directors delegated by the Group. The Directors believe that they can exert control on Suzhou Thvow thereon.

b) On 22 January 2019, the Group announced proposed adoption of the restricted A share incentive draft Scheme.

The number of Restricted Shares to be granted under the draft Scheme are 147,251,800 shares, accounted for approximately 1.00% of the total shares of the Company as at the date of the announcement of the draft Scheme.

The number of participants under the Scheme shall not exceed 2,500, including directors and senior management, middle management and key technical (business) personnel.

The grant price of the Restricted Shares shall be RMB3.03 per share. A participant who has satisfied the conditions of the grant may purchase such Restricted A Shares at RMB3.03 per share accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

56. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	1,869,868	1,952,472
Investment properties	34,926	37,399
Prepaid land lease payments	4,038,662	4,286,330
Intangible assets	126,804	60,103
Investments in subsidiaries	31,963,368	27,915,209
Investments in associates	4,383,397	2,584,161
Available-for-sale investments	—	782,004
Financial asset at fair value through profit or loss	3,059,800	—
Loans receivable	369,000	269,000
Deferred tax assets	1,345,119	1,077,837
Other non-current assets	5,711,798	1,932,811
Total non-current assets	52,902,742	40,897,326
Current assets		
Inventories	187,670	736,438
Construction contracts	—	2,438,194
Contract Assets	3,813,220	—
Trade receivables	7,839,927	14,880,750
Loans and lease receivables	3,897,560	1,796,560
Bills receivable	340,580	1,591,021
Prepayments, deposits and other receivables	21,714,174	20,078,782
Cash and cash equivalents	24,966,113	22,149,538
Total current assets	62,759,244	63,671,283
Total assets	115,661,986	104,568,609

56. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance sheet of the Company (continued)

	Note	As at 31 December	
		2018 RMB'000	2017 RMB'000
Equity and liabilities			
Liabilities			
Non-current liabilities			
Bonds		8,045,001	5,383,674
Bank and other borrowings		6,103,800	-
Government grants		46,852	-
Other non-current liabilities		15,713	58,077
Total non-current liabilities		14,211,366	5,441,751
Current liabilities			
Bonds		-	1,599,506
Trade payables		27,758,412	24,153,205
Bills payable		2,433,587	1,321,253
Government grants		17,742	893
Other payables and accruals		17,350,664	22,678,789
Bank and other borrowings		8,349,537	3,375,000
Tax payable		94,208	91,951
Provisions		381,559	275,876
Total current liabilities		56,385,709	53,496,473
Total liabilities		70,597,075	58,938,224
Equity			
Equity attributable to owners of the Company			
Share capital		14,725,187	14,725,181
Reserves	(a)	19,246,204	19,173,681
Retain earnings	(a)	11,093,520	11,731,523
Total equity		45,064,911	45,630,385
Total equity and liabilities		115,661,986	104,568,609

The Company's balance sheet was approved by the Board of Directors on 29 March 2019 and was signed on its behalf.

Mr. Zheng Jianhua	Mr. Huang Ou
Chairman and CEO	Executive Director and President

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

56. 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 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
Convertible bond - equity component	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
Change in accounting policy	(35,473)	(32,253)	(290,277)	(358,003)
As at 1 January 2018	17,010,606	2,095,349	11,441,246	30,547,201
Total comprehensive income for the year	-	-	1,422,760	1,422,760
Convertible bond - equity component	24	-	-	24
Appropriation of statutory surplus reserves	-	140,225	(140,225)	-
Dividend paid to shareholders	-	-	(1,353,980)	(1,353,980)
Others	-	-	(276,281)	(276,281)
As at 31 December 2018	17,010,630	2,235,574	11,093,520	30,339,724

As at 31 December 2018, balance of capital surplus included the Company's share premium of RMB15,860,917,000 (31 December 2017: RMB11,186,880,000) (Note 46).

57. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments for the year ended 31 December 2018, 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	-	781	416	44	1,241
Mr. Huang Ou (a)	-	210	250	15	475
Mr. Zhu Zhaokai (b)	-	183	-	15	198
Mr. Zhu Bin (c)	-	362	333	15	710
Mr. Jian Xunming	250	-	-	-	250
Mr. Chu Junhao	250	-	-	-	250
Mr. Lv Xinrong (d)	188	-	-	-	188
Mr. Xi Juntong (e)	83	-	-	-	83
Ms. Yao Minfang	-	-	-	-	-
Ms. Li An (f)	-	-	-	-	-

Directors' emoluments for the year ended 31 December 2017, 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	-	40	811
Mr. Jian Xunming	250	-	-	-	250
Mr. Chu Junhao	250	-	-	-	250
Mr. Lv Xinrong (d)	250	-	-	-	250
Mr. Zhu Kelin (g)	-	-	-	-	-
Ms. Yao Minfang	-	-	-	-	-
Mr. Li Jianjin (h)	-	-	-	-	-

(a) Mr. Huang Ou was appointed as Director with effect from 18 September 2018.

(b) Mr. Zhu Zhaokai was appointed as Director with effect from 18 September 2018.

(c) Mr. Zhu Bin was appointed as Director with effect from 18 September 2018.

(d) Mr. Lv Xinrong resigned as Director with effect from 18 September 2018.

(e) Mr. Xi Juntong was appointed as Director with effect from 18 September 2018.

(f) Mr. Li An was appointed as Director with effect from 18 September 2018.

(g) Mr. Zhu Kelin resigned as Director with effect from 18 September 2018.

(h) Mr. Li Jianjin resigned as Director with effect from 18 September 2018.