上海电气*
SHANGHAI ELECTRIC

SHANGHAI ELECTRIC GROUP COMPANY LIMITED
上海電氣集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02727)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Performance Highlights

- ► **Revenue for 2018 was RMB101,158 million, an increase of 27.17% year-on-year**
- ► **Profit attributable to owners of the Company for 2018 reached RMB2,980 million, an increase of 13.44% year-on-year**
- ► **Basic earnings per share for 2018 were RMB20.24 cents, an increase of 8.12% year-on-year**
- ► **New orders for 2018 amounted to RMB130.71 billion, which include an EPC contract for the world's largest Solar-thermal and Photovoltaic Hybrid power plant located in Dubai with a total installed capacity of 950MW, total contract amount more than RMB20 billion.**
- ► **The Board proposed to declare a final dividend of RMB6.146 cents per share for 2018**

The board of directors (the "**Board**") of Shanghai Electric Group Company Limited (the "**Company**" or "**Shanghai Electric**") is pleased to announce the results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018. The Group's results have been audited by PricewaterhouseCoopers.

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	4	**101,157,525**	79,543,794
Cost of sales	5	**(82,707,754)**	(63,701,557)
Gross profit		**18,449,771**	15,842,237
Other income	4	**1,375,023**	683,383
Other gains, net	4	**390,451**	1,656,244
Other income and other gains - net	4	**1,765,474**	2,339,627
Distribution costs	5	**(2,759,312)**	(2,254,100)
Administrative expenses	5	**(10,818,664)**	(11,446,749)
Net impairment losses on financial and contract assets	5	**(355,736)**	—
Operating profit		**6,281,533**	4,481,015
Finance income		**213,893**	198,847
Finance costs		**(1,153,456)**	(657,105)
Finance costs - net		**(939,563)**	(458,258)
Share of net profits of investments accounted for using the equity method :			
Joint ventures		**(167,798)**	570,118
Associates		**833,944**	772,374
Profit before income tax		**6,008,116**	5,365,249
Income tax expense	6	**(676,865)**	(522,422)
Profit for the year		**5,331,251**	4,842,827
Profit is attributable to:			
Owners of the Company		**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	8	**20.24 cents**	18.72 cents
Diluted earnings per share	8	**20.07 cents**	18.72 cents

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 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 account 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)
Hedge of a net investment in a foreign operation	**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

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**16,179,074**	16,468,912
Investment properties		**814,069**	832,508
Prepaid land lease payments		**5,870,721**	5,828,581
Goodwill		**3,398,942**	2,648,897
Intangible assets		**2,933,962**	1,393,008
Investments in joint ventures		**4,957,373**	4,395,635
Investments in associates		**8,606,062**	6,309,326
Available-for-sale investments		—	1,393,811
Deferred tax assets		**4,801,223**	3,982,674
Contract assets		**8,133,980**	—
Financial assets at fair value through other comprehensive income		**261,372**	—
Financial assets at amortised cost		**5,196,141**	—
Financial assets at fair value through profit or loss		**5,360,846**	—
Loans and lease receivables		—	7,399,416
Other non-current assets		**280,153**	4,335,730
Total non-current assets		**66,793,918**	54,988,498
Current assets			
Inventories		**27,929,297**	29,057,351
Construction contracts		—	5,416,449
Contract assets		**12,229,782**	—
Financial assets at fair value through other comprehensive income		**9,117,488**	—
Financial assets at amortised cost		**12,879,108**	—
Financial assets at fair value through profit or loss		**4,419,450**	—
Trade receivables	9	**18,840,593**	27,905,847
Loans and lease receivables		—	10,956,118
Discounted bills receivable		**317,917**	179,926
Bills receivable		**5,485,044**	10,106,004
Prepayments, deposits and other receivables		**18,032,675**	12,170,116
Investments		—	11,325,754
Derivative financial instruments		**788**	15,604
Due from the Central Bank*		**2,577,728**	3,267,497
Restricted deposits		**702,980**	565,322
Time deposits with original maturity over three months		**7,352,953**	10,922,202
Cash and cash equivalents		**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	2017 RMB'000
Equity and liabilities			
Liabilities			
Non-current liabilities			
Bonds		**12,749,245**	10,058,027
Bank and other borrowings		**9,588,836**	4,144,184
Provisions		**281,167**	243,817
Government grants		**1,004,508**	1,055,960
Other non-current liabilities		**1,009,326**	1,464,926
Deferred income tax liabilities		**628,895**	337,530
Total non-current liabilities		**25,261,977**	17,304,444
Current liabilities			
Bonds		**-**	1,599,506
Trade payables	10	**38,880,814**	33,740,212
Contract liabilities		**36,566,071**	—
Financial liabilities at fair value through profit or loss		**104,540**	—
Bills payable		**6,387,498**	7,144,728
Government grants		**414,545**	439,973
Other payables and accruals		**17,165,670**	56,627,701
Derivative financial instruments		**5,168**	8,537
Customer deposits		**4,431,761**	3,324,568
Bank and other borrowings		**10,351,116**	3,224,101
Taxes payable		**1,183,926**	1,201,062
Provisions		**4,132,159**	4,009,340
Total current liabilities		**119,623,268**	111,319,728
Total liabilities		**144,885,245**	128,624,172
Equity			
Equity attributable to owners of the Company			
Share capital		**14,725,188**	14,725,181
Reserves		**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

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 ("SE Corporation"), a state-owned enterprise established in the PRC.

The Company has its ordinary shares listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange 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 Group adopts the going concern basis in preparing its consolidated financial statements.

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 RMB 639,527,000. Of these commitments, approximately RMB 78,708,000 relate to short-term leases and RMB 35,000 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 RMB 471,643,000 on 1 January 2019, lease liabilities of RMB 495,877,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) and deferred tax assets of RMB 6,059,000.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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. 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 Investment and Available-for-sale investments to FVPL	(a)	4,109,458	-	-	(3,043,792)	-
Reclassify debt instruments and part of Bills receivable from Available-for-sale investments and Bills receivable to FVOCI	(b)	-	8,895,497	-	(8,178,643)	(716,854)
Reclassify loans and lease receivables and reverse repurchase agreements to financial assets at 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**	**-**	**-**

The impact of these changes on the Group's equity is as follows:

	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.

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 Investment and Available-for-sale investments 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 to financial assets at 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.

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
- loan 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

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 31 December 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 balance sheet 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SEGMENT INFORMATION

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

The details of operating segments are as follows:

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

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

For the year ended 31 December 2018

3. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SEGMENT INFORMATION (Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SEGMENT INFORMATION (Continued)

(1) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. REVENUE, OTHER INCOME AND OTHER GAINS, NET

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, other income and other gains, net 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

* Finance Company is the abbreviation of Shanghai Electric Group Finance Company Co., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. REVENUE, OTHER INCOME AND OTHER GAINS - NET(Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. REVENUE, OTHER INCOME AND OTHER GAINS, NET (Continued)

	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

For the year ended 31 December 2018

5. 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	**8,699,955**	8,403,780
Depreciation and amortisation	**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

6. 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	**(575,116)**	(852,956)
Total tax charge for the year	**676,865**	522,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. 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

7. 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: 9.195)	**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), totalling 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.

8. 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 on 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

9. 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

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

9. 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 RMB172,758,000 for trade receivables, RMB217,065,000 for contract assets.

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.

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.

9. 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

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 RMB 6,278,759,000 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 RMB 2,370,094,000 (31 December 2017: RMB 3,015,066,000).

10. 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**	-

MANGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

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, and its manufacturing sector will be evolving and transforming from traditional equipment manufacturing to intelligent manufacturing. In response to the new condition, environment and challenges, Shanghai Electric, acting on 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 been the winner of 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%, respectively.

Business Review of Major Business Segments

Unit: 100 million Currency: RMB

Major businesses by segment						
By segment	Revenue	Cost of sales	Gross profit margin (%)	YoY change in revenue (%)	YoY change in cost of sales (%)	YoY change in gross profit margin (% point)
New energy and environmental protection equipment	138.71	116.10	16.3	25.89	23.33	1.7
High efficiency and clean energy equipment	342.27	292.51	14.5	30.77	31.62	-0.6
Industrial equipment	374.60	305.00	18.6	11.59	14.00	-1.7
Modern services	170.17	141.00	17.1	24.54	35.58	-6.8

Unit: 100 million Currency: RMB

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	-1.8
Other countries/jurisdiction	112.45	92.18	18.03	6.92	8.19	-1.0

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, and 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 make active efforts to develop intelligent nuclear power equipment and innovate our business model, and cultivate 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 in an effort to use digital technology to provide customers with digital solutions for the whole life cycle of a wind farm. 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 hit new record highs.

During the reporting period, our 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 aims 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 slight 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.

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.

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. and for replenishing the working capital of the Company. Actual use of the proceeds is in line with the above disclosure.

On 22 May 2015, Shanghai Electric Newage Company Limited, a wholly-owned subsidiary of the Company, issued offshore bonds in the 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.

FUTURE DEVELOPMENT AND OUTLOOK OF THE COMPANY

Looking forward, we will further emancipate our minds and stick to the market-oriented, specialized and global development strategy. While focusing on advantageous business, optimizing existing business and vigorously developing emerging business, 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.

RECENT DEVELOPMENT

On 22 January 2019, the Board 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 2019.

CORPORATE GOVERNANCE

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.

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.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

FINAL DIVIDEND

The Board of the Company proposed to declare a final dividend of RMB6.146 cents (tax inclusive) per share for the year 2018, which is subject to approval at the forthcoming annual general meeting of the Company.

FINAL DIVIDEND INCOME TAX WITHHOLDING AND PAYMENT

According to the implementation rules which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend for the year 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.

DISCLOSURE OF INFORMATION ON STOCK EXCHANGE’S WEBSITE

This results announcement will be published on the Company’s website (http://www.shanghai-electric.com) and the Stock Exchange’s website (http://www.hkexnews.hk). The 2018 Annual Report will be despatched to the shareholders of the Company and will be made available on the websites of the Company and the Stock Exchange in due course.

By Order of the Board
Shanghai Electric Group Company Limited
Zheng Jianhua
Chairman

Shanghai, the PRC, 29 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. ZHENG Jianhua, Mr. HUANG Ou, Mr. ZHU Zhaokai and Mr. ZHU Bin; the non-executive directors of the Company are Ms. YAO Minfang and Ms. LI An; and the independent non-executive directors of the Company are Mr. KAN Shun Ming, Dr. CHU Junhao and Dr. XI Juntong.

** For identification purpose only*