上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)

ANNUAL REPORT 2012

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Teng Yi Long *(Chairman)*
Mr. Zhou Jie
(Vice Chairman & Chief Executive Officer)
Mr. Lu Shen *(Executive Deputy CEO)*
Mr. Zhou Jun *(Deputy CEO)*
Mr. Xu Bo *(Deputy CEO)*
Mr. Qian Yi *(Deputy CEO)*

Independent Non-Executive Directors
Dr. Lo Ka Shui
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis
Mr. Cheng Hoi Chuen, Vincent

BOARD COMMITTEES

Executive Committee
Mr. Teng Yi Long *(Committee Chairman)*
Mr. Zhou Jie
Mr. Lu Shen
Mr. Zhou Jun
Mr. Xu Bo

Audit Committee
Mr. Cheng Hoi Chuen, Vincent *(Committee Chairman)*
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis

Remuneration Committee
Dr. Lo Ka Shui *(Committee Chairman)*
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis
Mr. Cheng Hoi Chuen, Vincent
Mr. Li Han Sheng
Mr. Guo Fa Yong

Nomination Committee
Dr. Lo Ka Shui *(Committee Chairman)*
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis
Mr. Cheng Hoi Chuen, Vincent
Mr. Li Han Sheng
Mr. Guo Fa Yong

COMPANY SECRETARY

Mr. Yee Foo Hei

QUALIFIED ACCOUNTANT

Mr. Lee Kim Fung, Edward

AUTHORIZED REPRESENTATIVES

Mr. Zhou Jie
Mr. Yee Foo Hei

REGISTERED OFFICE

26th Floor, Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

COMPANY STOCK CODE

Stock Exchange	:	363
Bloomberg	:	363 HK
Reuters	:	0363.HK
ADR	:	SGHIY

COMPANY WEBSITE

www.sihl.com.hk

AUDITOR

Deloitte Touche Tohmatsu

ADR DEPOSITORY BANK

The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 358516,
Pittsburgh, PA 15252-8516, USA

Telephone	:	(1) 201 680 6825
Toll free (USA)	:	(1) 888 BNY ADRS
Website	:	www.bnymellon.com/shareowner
Email	:	shrrelations@bnymellon.com

INFORMATION FOR SHAREHOLDERS

SHAREHOLDER ENQUIRIES

Company Contact Details

Address	:	26th Floor, Harcourt House 39 Gloucester Road Wanchai, Hong Kong
Telephone	:	(852) 2529 5652
Facsimile	:	(852) 2529 5067
Email	:	enquiry@sihl.com.hk

Company Secretarial

Telephone	:	(852) 2876 2317
Facsimile	:	(852) 2863 0408

Investor Relations

Telephone	:	(852) 2821 3936
Facsimile	:	(852) 2866 2989

Share Registrar
Tricor Secretaries Limited

Address	:	26th Floor, Tesbury Centre 28 Queen's Road East Hong Kong
Telephone	:	(852) 2980 1333
Facsimile	:	(852) 2861 1465

Our Website

Press releases and other information of the Group can be found at our website: www.sihl.com.hk.

DIVIDEND

Proposed 2012 final dividend of HK58 cents (2011: HK58 cents) per share will be paid to shareholders on or about Thursday, 6 June 2013 subject to shareholders' approval.

Subject to approval by shareholders of the final dividend and together with the 2012 interim dividend of HK50 cents (2011: HK50 cents) per share paid during the year, total dividends for the year amounts to HK108 cents (2011: HK108 cents) per share .

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the annual general meeting, the register of members of the Company will be closed on Monday, 20 May 2013, no transfer of shares will be effected on that day. As such, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar by 4:30 p.m. on Thursday, 16 May 2013.

For the purpose of determining shareholders' entitlement to the final dividend, the register of members of the Company will be closed on Monday, 27 May 2013, no transfer of shares will be effected on that day. As such, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar by 4:30 p.m. on Friday, 24 May 2013.

FINANCIAL CALENDAR

2012 interim results announced	30 August 2012
2012 final results announced	26 March 2013
Despatch of 2012 annual report	on or about 18 April 2013
2013 annual general meeting	21 May 2013
Ex-dividend date for 2012 final dividend	23 May 2013
Record date for 2012 final dividend	27 May 2013
Despatch of notice of 2012 final dividend	on or about 6 June 2013

CHAIRMAN'S STATEMENT

ACHIEVING CONTINUED GROWTH FOR OUR CORE BUSINESSES WITH ENCOURAGING PROFITABILITY OVERALL

I am pleased to report to our shareholders our results for 2012.

In view of the volatile market resulted from global political and economic instability, a decline in China's economic growth, as well as control regulations on real estate and impacts of toll road policies during the year, the Group has taken proactive measures to overcome difficulties arising from the situation. Under the leadership of the Board of Directors and our management executives, the Group has made considerable efforts to enhance business management, strengthen internal control and optimize asset structure,

Teng Yi Long
Chairman

resulting in the continued growth of the different segments of our business. Smooth progress was made in the expansion of our core businesses and asset operation as well as in the continued optimization of our financial structure. During the year, changes were made in the management of the Company and several major subsidiary enterprises, including further achievement of a younger management team. Remarkable results were achieved for various major tasks undertaken by the Group and annual targets for the year were met as scheduled.

For the year ended 31 December 2012, the Group realized net profits of HK$3,438 million, representing an increase of 4.0%, after excluding disposal gains from the disposal of an equity interest in Four Seasons Hotel Shanghai in 2011. Total revenue amounted to HK$19,287 million, representing a year-on-year increase of 28.8%.

The Board of Directors has recommended a final dividend of HK58 cents (2011: HK58 cents) per share for 2012. Together with the interim dividend of HK50 cents (2011: HK50 cents) per share paid during the year, total dividends for the year amounted to HK108 cents (2011: HK108 cents) per share.

The Group continued to maintain a favorable momentum for its three core businesses throughout 2012. Of this, the toll roads business managed to generate a strong cash flow for the Group despite the impact of toll policies. The water services business continued to rapidly expand the scale of its operations while the infrastructure facilities business recorded earnings of HK$978 million, representing a year-on-year increase of 4.2%.

The real estate business realized a net profit of HK$1,736 million, representing an increase of 3.3%, after excluding disposal gains from the disposal of an equity interest in Four Seasons Hotel Shanghai in the last financial year. In 2012, the Company completed the disposal of a 90% equity interest in Lot G of Qingpu land in Shanghai. Benefiting from a reversal of impairment loss from the sale of the Beijing Workers' Gynasium project and the completion of the sale of a 50% equity interest of the Tangdao Bay project in Qingdao, SI Development continued its growth in earnings contribution for the year. A considerable decline in loss was recorded for SI Urban Development for the year as a result of its commitment to enhance marketing capabilities, strengthen internal management and improve its assets and liabilities situation. The decline also resulted from the successful completion of the disposal of 100% equity interest in the Park Avenue project in Chengdu.

The consumer products business continued to grow steadily with net profit for the year reaching HK$974 million, representing a year-on-year increase of 7.4%. Nanyang Tobacco implemented active strategies to upgrade its products and adjust product mix. Wing Fat Printing carried out optimization for its asset structure during 2012.

STEADY GROWTH MAINTAINED FOR TOLL ROADS AND RAPID EXPANSION SEEN IN WATER ASSETS

During the year, in spite of policies implemented to lower the base toll rates for our three expressways, the "green channel" that has been introduced for fresh agricultural products as well as the toll-free policy for major holidays, we managed to maintain a strong cash flow and stable growth throughout the year. Further improvements were made on the operation and management of the respective expressways with the intention to reduce cost and increase efficiency. Better road maintenance and monitoring methods were introduced to ensure smooth traffic flow during holidays and enhance operational efficiency. Meanwhile, the Group continued to seek opportunities to expand the scale of investments in the toll road business in order to further strengthen the profitability of its core businesses.

Rapid expansions were seen in the scale of the Group's water assets during the year. In July 2012, Asia Water completed the acquisition of a 69.378% equity interest in Nanfang Water. In November, the name of the company was changed to SI Environment. The transfer of the company's listing to the Mainboard of the Singapore Stock Exchange was also officially completed in the same month. Taking into account SI Environment and General Water of China, the Group has been able to strengthen the production and operation of its water business, with a total daily operating capacity of up to 8,570,000 tonnes as at the end of 2012, bolstering its leadership position in the industry. The Group aims to further improve its water assets portfolio and enhance the overall operational capability and competitiveness of the company. Meanwhile, SI Environment is actively planning for a dual-listing in Hong Kong depending on the capital market situation.

REAL ESTATE ASSETS REVITALIZED EFFECTIVELY WITH SIGNIFICANT IMPROVEMENT IN SALES AND MARKETING

During the year, the Company generated considerable profits from the completion of the disposal of 90% equity interest in lot G of the Qingpu land in Shanghai to the Chow Tai Fook Group, thereby effectively revitalizing its capital funds while increasing project brand presence. SI Development completed the disposal of a 50% equity interest in the Tangdao Bay project, Qingdao and successfully signed a cooperation agreement in relation to the commercial development of the International Beer City in Qingdao in December to effectively revitalize development funds for the International Beer City, Qingdao and increase the value of the project.

SI Urban Development successfully disposed of its 100% equity interest in the Park Avenue project in Chengdu, realizing total proceeds of RMB985 million. Shanghai Urban Development effectively expanded the sources of funding and optimized its financing structure after the successful completion of an issue of RMB1.5 billion of corporate bonds at relatively low interest rates in August.

The Group currently owns superior quality land resources in Shanghai as well as second and third tier cities in the coastal regions of eastern China and along the Yangtze River, the Yangtze River Delta, the Bohai Rim and central and western China. Capitalizing on the relatively low-cost land resources, together with its superb management and operations teams, the Group's real estate business has demonstrated great appreciation and profitability potential.

CONSUMER PRODUCTS BUSINESS ACHIEVED FURTHER STRUCTURAL OPTIMIZATION CREATING FAVORABLE BENEFITS THROUGH PRODUCT UPGRADES

Nanyang Tobacco continued to actively implement its strategies for product upgrades and product mix adjustments. Continuous efforts have been made to upgrade equipment and technology with two major restructuring projects for cigarette packaging machine and tobacco production line scheduled to be completed by 2013 which is expected to achieve further cost reduction, increase production capacity for exquisite products, enhance efficiency and achieve steady growth in earnings.

Wing Fat Printing optimized its assets structure during 2012 and acquired Shenzhen Shenyi on which Shenzhen WF Artistic Printing has been set up in April. In June, Wing Fat Printing successfully completed the disposal of a 70% equity interest in Chengdu Wingfat Printing and realized total proceeds of RMB231 million, generating a disposal gain of HK$172 million. In addition, it signed an agreement in December to dispose of its 30% equity interest in Zhejiang Tianwai and the transaction is expected to be completed in the first half of 2013.

PROSPECTS

In early 2013, capitalizing on a perfect timing in the market, the Company successfully completed the issue of HK$3,900,000,000 zero coupon 5-year convertible bonds, providing a favorable condition for the Group's future development with low-cost funding. However, we are fully aware of the challenges from the tightening regulatory and control policies in mainland China and the volatility of the capital markets in Europe and the Unites States and will take active measures to tackle these challenges.

In the infrastructure facilities business, we will expand the scale of our investments, including selective acquisitions of quality toll road projects. In regard to environmental operations, including water services, solid waste disposal and renewable energy, we will expand and strengthen our operations by accelerating business growth while enhancing our competitiveness in the market.

On the real estate business, increased efforts will be made to further study the macroeconomic environment, industry policies and market demands. We will also monitor our pace of development, strive for good product sales and asset revitalization, optimize asset and financial structure, strengthen brand building, and create a competitive business model that will help generate a higher return for the Company through capitalizing on the strength of our integrated development capability.

We will strengthen the management of the consumer products business to improve operational efficiency and secure steady growth. On the other hand, we will explore investment opportunities in the market and look for new profit growth to facilitate sustainable development in the business segment.

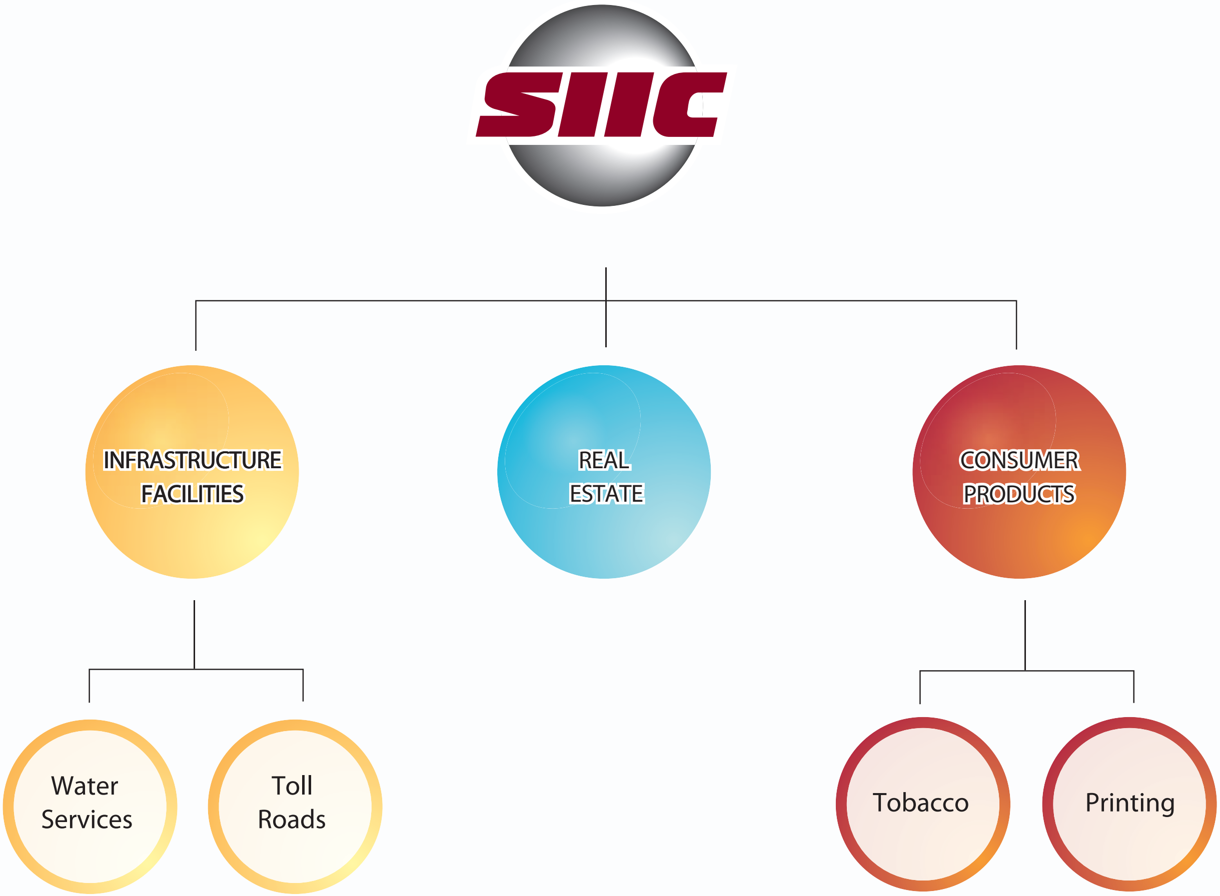
On behalf of the Board of Directors, I wish to thank our shareholders and business partners for their continued patronage and support to the Group, and extend my sincere gratitude to our management team and staff members for their dedication and contributions in the development of our business.

Teng Yi Long
Chairman

Hong Kong, 26 March 2013

GROUP BUSINESS STRUCTURE

As at 26 March 2013



GROUP BUSINESS STRUCTURE

INFRASTRUCTURE FACILITIES

Business	Interests held by the Group	Company name	Principal business
Toll roads	100%	Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd.	Operation of Jing-Hu Expressway (Shanghai Section)
	100%	Shanghai Luqiao Development Co., Ltd.	Operation of Hu-Kun Expressway (Shanghai Section)
	100%	Shanghai Shen-Yu Development Co., Ltd.	Operation of Hu-Yu Expressway (Shanghai Section)
Water services	50.33%	SIIC Environment Holdings Ltd. (5GB SGX)	Water supply and sewage treatment
	47.50%	General Water of China Co., Ltd.	Water supply and sewage treatment

REAL ESTATE

Business	Interests held by the Group	Company name	Principal business
Real estate	69.95%	Shanghai Industrial Urban Development Group Limited (563 HKSE)	Property development and investment
	63.65%	Shanghai Industrial Development Co., Ltd. (600748 SSE)	Property development and investment
	81.46%	Shanghai SIIC Hu-Bin New City Development Ltd.	Property development and investment
	81.46%	Shanghai Feng Ze Properties Ltd.	Property development and investment
	81.46%	Shanghai Feng Mao Properties Ltd.	Property development and investment
	81.46%	Shanghai Feng Qi Properties Ltd.	Property development and investment
	10%	Shanghai Feng Tao Properties Ltd.	Property development and investment
	10%	Shanghai Feng Shun Properties Ltd.	Property development and investment

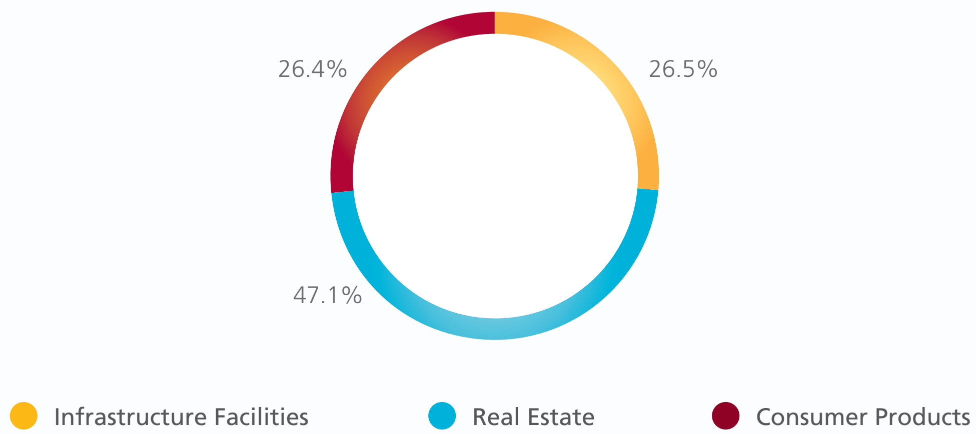
CONSUMER PRODUCTS

Business	Interests held by the Group	Company name	Principal business
Tobacco	100%	Nanyang Brothers Tobacco Company, Limited	Manufacture and sale of cigarettes
Printing	93.47%	The Wing Fat Printing Company, Limited	Manufacture and sale of packaging materials and printed products

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

For the year ended 31 December 2012, the Group recorded profits attributable to shareholders of HK$3,438 million, representing a year-on-year increase of 4.0%, after excluding disposal gains from the disposal of an equity interest in Four Seasons Hotel Shanghai in 2011. Revenue for the year stood at HK$19,287 million, up 28.8% over last year. During the year, the Group's operating results grew steadily with further enhancements in its core asset value. Meanwhile, corporate governance standards continued to improve and satisfactory progress was made on the Group's asset restructuring plan.

Profit contributions from the Group's core business



INFRASTRUCTURE FACILITIES

During the year, the infrastructure facilities business recorded profits amounted to HK$978 million, representing an increase of 4.2% over last year, accounting for approximately 26.5% of the Group's Net Business Profit. Currently, investments in the Group's infrastructure facilities business mainly included toll roads and water services, which spread over 35 cities across mainland China. Looking ahead, we will increase our investments in renewable energy, which shall become a new growth area under the Group's business development strategy. Meanwhile, the Group will strive to develop itself into a major investor and operator in China's infrastructure and environmental services and to become a leading enterprise in the field of environmental investments in the future.

Toll Roads

During the year, the Group's toll income has been affected to a certain extent by adjustments that have been made on the base toll rates for highways in Shanghai and the first ever toll exemption policy for small passenger cars on major holidays implemented after the end of the second quarter as well as toll-exemptions that have been introduced for fresh agricultural products. The impact from the adjustments on traffic flow and revenue remains mild while the corresponding increase in traffic flow caused by the reduction in base toll rates partially offset the decline in income. For this reason, the new policies are not expected to create a significant impact on our toll roads business. In relation to such policies, special arrangements related to operation security have been set up to ensure orderly operation of the Group's toll roads. During the year, smooth traffic operations were actively implemented during holidays for the Group's three expressways to ensure orderly traffic flows, and road facilities maintenance was improved to effectively enhance road operations and maintenance. This has greatly reduced the negative impact from the policies.

Jing-Hu Expressway (Shanghai Section)

Hu-Ning Expressway recorded a net profit of HK$327 million for the year, increasing year-on-year by 10.4%. Benefiting from natural growth in the total number of private cars in the community, toll revenue and traffic flow of the Jing-Hu Expressway (Shanghai Section) increased year-on-year by 3.4% and 6.6% to HK$596 million and 36.20 million vehicle journeys respectively, despite impact from the new policies.

Through the adoption of incentive mechanism, toll collection efficiency continued to improve and average road capacity per hour at road junctions during peak hours also increased by 8% over last year. During the year, the company successfully concluded a toll collection scheme with the government which will be implemented after the connection of Jiamin Elevated Expressway Bridge with the main route of Jing-Hu Expressway. Looking ahead in 2013, increased efforts will be made to carry out alteration works at Jiasong toll station of the Jing-Hu Expressway (Shanghai Section) and the Electronic Toll Collection (ETC) system Phase III Project.

Hu-Kun Expressway (Shanghai Section)

Net profit of Luqiao Development for 2012 amounted to HK$365 million, an increase of 9.9% over last year. Toll revenue from Hu-Kun Expressway (Shanghai Section) for the year totaled HK$872 million, representing a record high and a year-on-year increase of 2.7%; traffic flow reached 39.28 million vehicle journeys, a year-on-year increase of approximately 11.3%.

During the year, Luqiao Development has made considerable efforts to control financial expenses in order to reduce costs and increase operational efficiency. The company has also promoted the importance of safety operation on a widespread scale in order to ensure the implementation of safety management in an orderly manner.

Hu-Yu Expressway (Shanghai Section)

Shanghai Shen-Yu recorded a net profit for the year of HK$172 million, representing a year-on-year increase of 15.3%. Notwithstanding the economic slowdown in China and toll rates adjustments, toll revenue and traffic flow from Hu-Yu Expressway (Shanghai Section) for 2012 maintained its growth momentum and increased year-on-year by 0.2% and 8.2% to HK$456 million and 31.07 million vehicle journeys respectively.

During the year, contests were held to further improve road capacity at toll collection junctions and service quality at collection counters was continuously upgraded. As a result, the average road capacity per hour at all exit lanes at Xujing toll station during peak hours increased by 7.4% over last year. In 2013, major alteration works for Jiasong toll station on the Hu-Yu Expressway (Shanghai Section) and the ETC system Phase III Project will be carried out.

Water Services

The Group's water services business consists of two operating platforms, namely the Singapore-listed SI Environment (formerly known as Asia Water) and General Water of China, a domestic water services company in China. As at the date of this report, the two companies are owned 50.33% and 47.5% by the Group respectively with a combined total daily operating capacity of up to 8,570,000 tonnes, putting it in the forefront of the industry.

SI Environment

Following an injection of a 75.5% equity interest in United Environment in 2011, SI Environment announced in June 2012 the acquisition of a 69.378% equity interest in Nanfang Water for a total consideration of RMB409.3 million. The acquisition was settled by way of cash payment, issuance of new shares and subsequent issuance of performance-linked incentive new shares. To facilitate the acquisition, a shareholder's loan of HK$370 million was provided to SI Environment by the Company. With the completion of the transaction in July, the total daily operating capacity of SI Environment now exceeds 3,400,000 tonnes, with 40 projects (excluding the solid waste disposal project) operating in 12 provinces across mainland China.

Taking into account profit contributions from United Environment and Nanfang Water, SI Environment recorded a net profit of RMB131 million, representing a significant year-on-year increase of 119.3%, after excluding a provisional negative goodwill and provisional fair value gain recorded during the last financial year. Revenue stood at RMB800 million, an increase of 54.9% over last year. On 30 November 2012, SI Environment completed the transfer of its listing from Catalist to the Mainboard of the Singapore Stock Exchange. Depending on the capital market situation, SI Environment is actively planning for a dual-listing in Hong Kong in this year.

During the year, a 70% owned subsidiary of SI Environment entered into a BOT franchise agreement with the Dalian Municipal Government for the construction of three sewage treatment plants in Puwan New Zone in Dalian, Liaoning, China, with a total investment of RMB155 million and daily capacity of up to 580,000 tonnes on a long-term scale. In addition, the sewage treatment plant franchise project in Shanting District, Zaozhuang, Shandong and the sewage treatment plant phase II extension project in Yicheng District, Zaozhuang, Shandong both commenced operation in January 2012. Apart from this, a main project for the sewage treatment plant BOT project and water distribution plant in the new zone of eastern Gaoxin District, Yiyang, Hunan were completed, with operation commenced in September and March respectively. In December, Nanfang Water signed a TOT franchise agreement with the Wuchuan Municipal People's Government, Guangdong Province, China for the operation of a sewage treatment plant in Wuchuan, with an investment amount of approximately RMB75.10 million and a prospective daily planned capacity of 40,000 tonnes.

General Water of China

As at 31 December 2012, General Water of China had total assets of RMB6,200 million, comprising 23 water supply facilities and 16 sewage treatment plants as well as two reservoirs with a gross storage tank volume of 18,232 tonnes and a pipe network of 4,800 kilometers in total. Daily production capacity totaled 5,159,000 tonnes, of which daily water generating capacity and daily sewage treatment capacity amounted to 3,705,000 tonnes and 1,454,000 tonnes respectively. Revenue for the year stood at HK$1,597 million, representing an increase of 28.8% over last year; net profit amounted to HK$43.71 million, a year-on-year decline of HK$13.16 million, mainly due to a reduction in government subsidies received by the Suifenhe Project as compared to last year.

As for project development, General Water of China has been actively expanding its existing projects during the year while seeking merger and acquisition opportunities in the market. Focusing on project implementation and development, satisfactory progress has been made. The company also facilitated corporate development through technological innovation and application with a view to strengthening its core competitiveness by enhancing technological and research capabilities. During the year, General Water of China carried out alteration and expansion projects in central Wenzhou and eastern Wenzhou, increasing the scale of capacity by 150,000 tonnes per day. On the other hand, a framework agreement was signed with Beijing Tongzhou District Government for the construction of a sewage treatment project (scale of capacity: 200,000 tonnes per day) and a reclaimed water recycling project (scale of capacity: 100,000 tonnes per day) in Tongzhou District jointly. General Water of China has been again awarded and ranked 7th among the 'Top 10 Most Influential Enterprises in China's Water Industry'. During the year, the company also obtained qualification for operation of environmental pollution control facilities, providing the necessary conditions for project bidding and tendering as well as undertaking external projects.

Details of the development projects of the Group as at 31 December 2012 are as follows:

	Province	Projects of SI Environment	Project type	Daily production capacity (tonnes)	Interests attributable to SI Environment	Project progress
1	Fujian	Sewage treatment plant BOT project in Longmen Town, Anxi, Quanzhou	Sewage treatment	50,000	69.378%	Construction of Phase I project is close to completion and is estimated to commence operation in 2013.
2	Guangdong	Sewage treatment plant BOT project in Dalang, Dongguan	Sewage treatment	100,000	75.5%	The project is in operation.
3	Guangdong	Water purification center phase I, phase II TOT and BOT franchise projects, water purification center phase I, phase II deep processing projects in Meihu, Huizhou	Sewage treatment	200,000	69.378%	The project is in operation.
4	Guangdong	Fuyong Sewage treatment plants BOT franchise projects in Longgang District, Shenzhen	Sewage treatment	280,000	69.378%	• All four plants are in operation. • Phase II project of one of the plants is under construction and is expected to commence operation in 2013.
5	Guangdong	Water recycling plant project in Henggang, Shenzhen	Reclaimed water treatment	50,000	69.378%	• Phase I project is in operation. • Construction of phase II project has yet to commence.
6	Guangdong	Sewage treatment plant project in Banxuegang, Shenzhen	Sewage treatment	40,000	69.378%	The project is in operation.
7	Guangdong	Sewage treatment plant project in Guanlan, Shenzhen	Sewage treatment	260,000	45.096%	• Phase I project is in operation. • Construction of Phase II project has yet to commence.
8	Guangdong	Sewage treatment plant TOT project in Wuchuan, Zhanjiang	Sewage treatment	40,000	69.378%	The project is in operation.
9	Guangxi	Sewage treatment plant BOT project in Beiliu	Sewage treatment	40,000	75.5%	The project is in operation.
10	Hubei	Sewage treatment project in Huangshi	Sewage treatment	125,000	100%	The project is in operation.
11	Hubei	Water supply project in Tianmen	Water supply	150,000	100%	The project is in operation.
12	Hubei	Water supply project in Xinnong Tianmen	Water supply	Not applicable	70%	The project is in operation.
13	Hubei	Sewage treatment project in Hanxi, Wuhan	Sewage treatment	400,000	80%	The project is in operation.
14	Hubei	Water supply project in Huangpi, Wuhan	Water supply	150,000	100%	The project is in operation.
15	Hubei	Sewage treatment project in Qianchuan, Wuhan	Sewage treatment	30,000	100%	The project is in operation.
16	Hubei	Sewage treatment project in Panlong, Wuhan	Sewage treatment	22,500	100%	The project is in operation.
17	Hubei	Sewage treatment project in the Wuhan City Economic Zone	Sewage treatment	60,000	100%	The project is in operation.
18	Henan	Sewage treatment plant BOT project in Dongcheng District, Luohe	Sewage treatment	20,000	75.5%	The project is in operation.

	Province	Projects of SI Environment	Project type	Daily production capacity (tonnes)	Interests attributable to SI Environment	Project progress
19	Hunan	Sewage treatment BOT project in Linwu, Chenzhou	Sewage treatment	10,000	13.876%	The project is in operation.
20	Hunan	Sewage treatment project in Chenzhou	Sewage treatment	120,000	69.378%	The project is in operation.
21	Hunan	Sewage treatment plant BOT project in Taohuajiang, Taojiang	Sewage treatment	20,000	75.5%	The project is in operation.
22	Hunan	Sewage treatment plant BOT project in the new zone of eastern Gaoxin District, Yiyang	Sewage treatment	30,000	75.5%	The project is in operation.
23	Hunan	Sewage treatment plant BOT project in northern Yiyang	Sewage treatment	40,000	75.5%	The project is in operation.
24	Jiangsu	Sewage treatment franchise and sewage treatment plant BOT project at Newport Park, Jingjiang	Sewage treatment	80,000	48.565%	The project is in operation.
25	Jiangsu	Sewage treatment plant project in southern Shuyang	Sewage treatment	60,000	69.378%	• Phase I project is in operation. • Construction of Phase II project has yet to commence.
26	Jiangsu	Sewage treatment plant franchise project in Huangqiao, Taixing	Sewage treatment	50,000	48.565%	• Phase I project is in operation. • Construction of Phase II project has yet to commence.
27	Jiangsu	Sewage treatment plant BOT project at Environmental Protection Industry Park, Yancheng	Sewage treatment	30,000	48.565%	Construction of the project is estimated to commence in 2013.
28	Liaoning	Sewage treatment plant in Sanshili Town, sewage treatment plant in Houhai, and sewage treatment plant BOT project in Liujia, Puwan New Area, Dalian	Sewage treatment	50,000	70%	The project is under construction.
29	Shandong	Sewage treatment plant TOT project in Dezhou	Sewage treatment	100,000	75.5%	The project is in operation.
30	Shandong	Sewage treatment plant BOT project in western Weifang	Sewage treatment	40,000	75.5%	The project is in operation.
31	Shandong	Sewage treatment plant BOT project in Weifang City High Technology Industrial Development District	Sewage treatment	50,000	75.5%	The project is in operation.
32	Shandong	Water supply project in Hanting District, Weifang	Water supply	60,000	26.183%	The project is in operation.
33	Shandong	Sewage treatment plant reclaimed water treatment project in Weifang	Reclaimed water treatment	35,000	75.5%	The project is in operation.
34	Shandong	Sewage treatment plant TOT project in Weifang	Sewage treatment	100,000	75.5%	The project is in operation.
35	Shandong	Water supply project in Weifang	Water supply	320,000	51.34%	The project is in operation.
36	Shandong	Sewage treatment plant franchise project in Shanting District, Zaozhuang	Sewage treatment	20,000	75.5%	• Phase I project is in operation. • Construction of Phase II project has yet to commence.
37	Shandong	Sewage treatment plant TOT+BOT project in Yicheng District, Zaozhuang	Sewage treatment	40,000	75.5%	The project is in operation.
38	Shanxi	Water supply project in Lvliang	Water supply	55,000	100%	The project is in operation.
39	Yunnan	Sewage treatment recycling plant project in Nijiaying Community, Kunming Economic and Technological Development Zone	Sewage treatment, reclaimed water treatment	70,000	36.077%	• Sewage treatment project is in operation. • Construction for reclaimed water treatment project has yet to commence.
40	Zhejiang	Sewage treatment project in Taizhou	Sewage treatment	12,500	100%	The project is in operation.
41	Zhejiang	Waste incineration power generation BOT project in Wenling	Solid waste power generation	1,100	50%	• Phase I project is in operation. • Construction of Phase II project is estimated to commence in 2013.
Sub-total				3,411,100		

	Province	Projects of General Water of China	Project type	Daily production capacity (tonnes)	Interests attributable to General Water of China	Project progress
1	Anhui	Water supply project in Bengbu	Water supply	430,000	60%	The project is in operation.
2	Fujian	Sewage treatment project in Xiamen	Sewage treatment	834,000	55%	The project is in operation.
3	Fujian	Water generation project in Xiamen	Water generating	1,155,000	45%	The project is in operation.
4	Guangdong	Sewage treatment plant project in Longhua, Shenzhen	Sewage treatment	150,000	90%	The project is in operation.
5	Heilongjiang	City sewage treatment project in Suifenhe	Sewage treatment	20,000	100%	The project is in operation.
6	Heilongjiang	Wuhua Mountain reservoir project and water supply project in Suifenhe	Water supply	195,000	100%	• Phase I of the water supply project is in operation. • The Wuhua Mountain reservoir and the third water treatment plant are under construction.
7	Hubei	Water supply project in Xiangyang	Water supply	1,000,000	50%	The project is in operation.
8	Hunan	Water supply project in Xiangtan	Water supply	425,000	70%	The project is in operation.
9	Hunan	Sewage treatment project in river east of Xiangtan	Sewage treatment	100,000	100%	The project is in operation.
10	Shaanxi	Water generation project in Xianyang	Water generating	300,000	100%	The project is in trial operation.
11	Zhejiang	Project on reservoir and water induction works in Tiger Lake, Huzhou	Water supply	200,000	100%	The project is in operation.
12	Zhejiang	Sewage treatment project in the new district of eastern Huzhou	Sewage treatment	50,000	100%	The project is in operation.
13	Zhejiang	Sewage treatment project in eastern Wenzhou	Sewage treatment	100,000	100%	The project is in operation.
14	Zhejiang	Sewage treatment project in central Wenzhou	Sewage treatment	200,000	70%	The project is in operation.
Sub-total				5,159,000		
Total				**8,570,100**		

REAL ESTATE

In view of the macroeconomic and policy environment both domestic and abroad, the Group continued to optimize management and operation of the real estate business, implement full integration of resources and increase capital operation. These measures are intended to improve the overall operational performance and profitability of the Group by fully capitalizing on the strength of regional integrated development capability. Benefiting from the favorable sales results of affordable apartments and increases in sales proceeds as recorded in the books, the real estate business recorded a revenue for the year of up to HK$13,011 million, a year-on-year increase of 51.6%. As at 31 December 2012, the real estate business made a profit contribution of HK$1,736 million to the Group, accounting for approximately 47.1% of the Group's Net Business Profit and representing a year-on-year increase of 3.3%, after excluding disposal gains from the disposal of an equity interest in Four Seasons Hotel Shanghai in 2011. Looking forward, further integration of resources will be facilitated to enhance synergy between our two real estate operating platforms, namely SI Urban Development and SI Development.

In April 2012, the Company announced the signing of an amendment deed with Chow Tai Fook Group for the disposal of 90% equity interest in lot G in the Qingpu District, Shanghai, pursuant to which the parties agreed that the completion date for the original agreement would be moved forward by eight months and that the total consideration be adjusted accordingly for earlier payment of the consideration by the purchaser. The transaction was completed at the end of April, and by the end of June, partial proceeds of a total of approximately RMB551 million was received, boosting the Group's available funds for project development. The gain on the disposal amounting to HK$1,132 million has been accounted for during the year. Pursuant to the deed, the Group will receive the outstanding balance of the consideration of RMB655 million by the end of 2013.

SI Urban Development

As at 31 December 2012, SI Urban Development has 24 projects in 12 cities, with a future salesable gross floor area of approximately 9,000,000 square meters. Looking forward in the future, with a view to provide long-term development momentum, SI Urban Development will capitalize on the strong position of the Group in the Yangtze river and actively seek for quality projects with potentials in the area and in the major cities along the river side.

SI Urban Development recorded a revenue for the year of HK$8,783 million, an increase of 98.1% over last year. Loss attributable to shareholders amounted to HK$190 million, a year-on-year loss reduced by 68.4%. Contractual amount for the year stood at RMB6,680 million, accounting for a total gross floor area of 608,000 square meters, comprising mainly Urban Cradle in Shanghai, CBE International Peninsula in Xi'an, Laochengxiang in Tianjin and Top City in Chongqing. Sales for the year totaled approximately HK$8,373 million. Projects which delivered sold properties units included CBE International Peninsula in Xi'an, Urban Cradle in Shanghai and affordable housing program, Shanghai Jing City. In 2012, the company focused its efforts on accelerating project development and sales, solidifying the brand's presence and revitalizing its assets. Looking ahead, the company will position itself to increase the sale of high quality real estate projects with high gross profit margins and ample stocks in order to strive for better presale proceeds and returns.

In December 2012, SI Urban Development announced the disposal of the entire interest in the Park Avenue project in Chengdu in order to focus on the Yangtze River Delta as the core development area, with non-core projects disposed of at the right time. Total consideration for the disposal included the equity transfer fund of RMB158 million and debts amounting to RMB827 million. It has been provided that 70% stake therein shall be disposed of by way of equity transfer outside China, while the remaining 30% stake held by a domestic company shall be disposed of by way of public bidding on the Shanghai United Assets and Equity Exchange. The whole transaction was completed in 2012. In August, Shanghai Urban Development successfully completed a RMB1,500 million bond issue, considerably enhancing its operating capability with the proceeds raised therefrom.

SI Development

SI Development has a total of 20 real estate investment projects, most of which are located in Shanghai, Huzhou, Harbin, Qingdao, Quanzhou, Chongqing, Chengdu and Dali with a planned total gross floor area of approximately 6,301,400 square meters (including investment properties) as at the end of December 2012. Emphasizing on new innovation, key breakthroughs, stable management and prudent growth, SI Development achieved record high results and significant enhancement in operating performance, despite prevailing macro-controls on the real estate industry and the tightening of the domestic capital market.

In 2012, SI Development recorded a revenue for the year of RMB3,667 million, representing a year-on-year increase of 2.36%. Profits amounted to RMB639 million, rising 41.45% over last year. During the year, the Company has made a stronger effort to assess the impact from the macro environment as well as from the regional markets. Having had a clear understanding of the special features of the different projects and the needs of the customers, the company has been able to adopt a marketing strategy that emphasizes on "closing sales, seizing the right opportunity, securing mortgages and soliciting agents." Through overcoming unfavorable factors from the changing market environment, fully developing new sources of customers, suitably adjusting product mix, flexibly adopting marketing strategies and effectively raising the efficiency of promotional programmes, the company has been able to achieve steady progress for the sales of its projects, including, the Longines Bay in Harbin, the Rhine Town in Tianjian, the Sea Melody in Dali, the Flos Granati in Jinshan, the Zhujiajiao project and the Changhai Building. Property sales for the year reached approximately HK$4,229 million.

During the year, SI Development focused its efforts on the development of the International Beer City project in Qingdao, which is located in Laoshan District, Qingdao. The project will be developed into a complex for festive celebrations, leisure, entertainment, shopping and commercial purposes. To optimize cash flow and to enhance the overall value of the project, SI Development signed a cooperation agreement with a third party in December 2012 relating to the International Beer City shopping mall project in Qingdao that covers a planned gross floor area of 216,000 square meters for RMB1,570 million. Construction of the mall is expected to be completed by 2015. SI Development also completed the disposal of a 50% equity interest in the Tangdao Bay project in Qingdao during the first half of 2012.

Set out below is a summary of the major property development projects of the Group as at 31 December 2012:

Major Development Properties

Projects of SI Urban Development	Type of property	Interest attributable to SI Urban Development	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold GFA during the year (square meters)	Total GFA sold (square meters)	Date of completion
Urban Cradle (萬源城) Minhang District, Shanghai	Residential, commercial and office	53.1%	943,000 (908,950 square meters obtained)	1,124,245	47,406	543,602	2007 to 2015, in phases
Shanghai Youth City (上海青年城) [1] Songjiang District, Shanghai	Residential, commercial and office	100%	57,944	212,130	8,453	129,828	Completed
Shanghai Jing City (上海晶城) Minhang District, Shanghai	Residential and commercial	59%	259,182	602,400	280,547	280,547	2012 to 2016, in phases
Jingjie Yuan (晶杰苑) [2] Minhang District, Shanghai	Residential and commercial	59%	49,764	125,143	–	–	Completed
American Rock (後現代城) Chaoyang District, Beijing	Residential, commercial and office	100%	121,499	523,833	311	447,090	Completed
Youngman Point (青年匯) Chaoyang District, Beijing	Residential and commercial	100%	112,700	348,664	36	240,316	2007 to 2014, in phases
West Diaoyutai (西釣魚台嘉園) Haidian District, Beijing	Residential	90%	42,541	250,930	7,679	168,553	2007 to 2014, in phases
Laochengxiang (老城廂) Nankai District, Tianjin	Residential, commercial and office	100%	244,252	752,883	12,974	529,997	2006 to 2014, in phases
Yoooou.net (游站) Huaqiao Town, Kunshan, Jiangsu	Commercial, hotel and office	30.7%	34,223	129,498	1,440	14,732	2012 to 2013, in phases
Royal Villa (琨城帝景園) Zhoushi Town, Kunshan, Jiangsu	Residential	53.1%	205,017	267,350	11,846	104,612	2007 to 2014, in phases
Urban Development International Centre (上海中心城開國際) Binhu District, Wuxi, Jiangsu	Commercial, hotel, office and serviced apartment	59%	24,041	193,368	7,846	9,207	2011 to 2013, in phases
CBE International Peninsula (滻灞半島) [3] Chanba Ecotope, Xi'an, Shanxi	Residential, commercial and hotel	71.5%	2,101,775	4,012,094	127,017	1,648,832	2008 to 2017, in phases
Top City (城上城) Jiulongpo District, Chongqing	Residential, commercial, hotel and office	100%	120,014	785,225	37,907	313,084	2008 to 2014, in phases
Ivy Aroma Town (常春藤•緹香小鎮) Jiulongpo District, Chongqing	Residential and commercial	32.5%	289,812	194,697	5,087	44,324	2009 to 2014, in phases
Shenyang U Center (瀋陽城開中心) [4] Heping District, Shenyang, Liaoning	Commercial, office and serviced apartment	80%	22,651	239,651	–	–	2012 to 2014, in phases
Toscana (托斯卡納) Yuhua District, Changsha, Hunan	Residential and commercial	32.5%	180,541	210,980	12,547	178,343	Completed
Forest Sea (森林海) [5] Wangcheng District, Changsha, Hunan	Residential and commercial	67%	667,749	907,194	16,299	225,157	2007 to 2017, in phases
China Phoenix Tower (中國鳳凰大廈) [6] Futian District, Shenzhen, Guangdong	Residential, commercial and office	91%	11,038	106,190	–	78,343	Completed
Sub-total			5,487,743	10,986,475			

Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold GFA during the year (square meters)	Total GFA sold (square meters)	Date of completion
Longines Bay (盛世江南) Daoli District, Harbin, Heilongjiang	Residential	100%	42,110	234,069	43,900	171,405	Completed
Shanghai Zhiying (上海智穎) Daoli District, Harbin, Heilongjiang	Commercial and residential	100%	Not Applicable	90,201	2,910	72,301	Completed
Rhine Town (萊茵小鎮) Xiqing District, Tianjin	Commercial and residential	100%	375,796	529,971 (basement included)	75,611	224,405	Completed
Hi-Shanghai (上實•海上海) Laoshan District, Qingdao, Shandong	Residential and hotel	55%	43,164	143,008	-	66,190	2015
International Beer City (國際啤酒城) Shilaoren National Tourist Resort, Qingdao Shandong	Composite	72%	227,675	760,000	–	–	2012 to 2018, in phases
Belle Rive (海源別墅) Qingpu District, Shanghai	Villa	51%	315,073	38,400	2,255	11,962	2014 to 2016, In phases
Shanghai Bay (上實•海上灣) Qingpu District, Shanghai	Residential	51%	820,196	405,000	8,397	39,285	2011 to 2017, in phases
Shanghai Lot D1 Qingpu District, Shanghai	Residential	51%	162,708	75,691	–	–	2017
Shanghai Lot D2 Qingpu District, Shanghai	Residential and commercial	51%	194,380	204,186	–	–	2017
Changhai Building (長海大廈) Putuo District, Shanghai	Commercial and office	51%	6,255	34,716	34,716	34,716	Completed
Flos Granati (海上納緹) [7] Jinshan District, Shanghai	Residential	52%	135,144	214,143	10,026	-	2013 to 2014, in phases
Lakeside Villa (東方國際別墅) Wuxing District, Huzhou, Zhejiang	Residential	100%	62,951	66,217	671	58,307	Completed
SIIC Hujin Garden (上實湖峻花園) Wuxing District, Huzhou, Zhejiang	Residential	100%	85,562	97,881	-	-	2012 to 2014, in phases
Hurun Commercial Plaza, Phase I (湖潤商務廣場(一期)) Hudong Sub-District, Huzhou, Zhejiang	Commercial	100%	13,661	27,322	–	–	2015
Sea Melody (洱海莊園) Northern New Zone, Xiaguan Town, Dali, Yunan	Residential and commercial	75%	292,123	348,818	20,974	191,627	2013
Waterscape & Sky Garden (水天花園) Beibei District, Chongqing	Commercial and residential	50%	363,640	226,164	1,731	200,067	Completed
Changdu Hi-Shanghai (成都上實•海上海) Changhua District, Changdu, Siuchuan	Residential	50.4%	61,506	254,989	–	–	2012 to 2015, in phases
Sub-total			3,201,944	3,750,776			

Projects of the Company	Type of property	Interest attributable to the Company	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold GFA during the year (square meters)	Total GFA sold (square meters)	Date of completion
Shanghai Lot D1 Qingpu District, Shanghai	Residential	49%	162,708	75,691	–	–	2017
Shanghai Lot D2 Qingpu District, Shanghai	Residential and commercial	49%	194,380	204,186	–	–	2017
Sub-total			357,088	279,877			
Total			**9,046,775** [8]	**15,017,128** [8]			

Major Future Development Properties

Projects of SI Urban Development	Type of property	Interest attributable to SI Urban Development	Approximate site area (square meters)	Planned total GFA (square meters)	Anticipated project commencement and completion date
Xujiahui Centre (徐家匯中心) Xuhui District, Shanghai	Commercial, hotel and office	35.4%	132,000 dividing into six parcels of land (35,343 square meters obtained)	629,000 (212,058 square meters obtained)	Under planning
U Center (城開中心) Minhang District, Shanghai	Commercial, hotel and office	69.3%	87,327	517,500	2014 to 2016, in phases
Xinzhuang metro superstructure project (莘莊地鐵上蓋項目) Minhang District, Shanghai	Residential, commercial, hotel and office	20.7%	117,825	405,000	Under planning
Yanjiao (燕郊) Economic and Technological Development Zone, Yanjiao, Sanhe, Hebei	Residential, commercial hotel and office	100%	333,333	666,600	2014 to 2016, in phases
Beichen (北辰) Jiuchun Village, Yixingfu, Tianjin	Residential, commercial and hotel	40%	1,115,477	2,042,750	2012 to 2014, in phases
Qi Ao Island (淇澳島) Tangjia High-tech Zone, Zhuhai, Guangdong	Residential, commercial and hotel	100%	2,215,516	1,090,000	Under planning
Sub-total			4,001,478	5,350,850	

Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Anticipated project commencement and completion date
SIIC Holiday Hotel (上實假日酒店) Wuxing District, Huzhou, Zhejiang	Commercial and hotel	100%	116,458	131,216	Under planning
Lots HD36, 37, 38 Hudong Sub-District, Huzhou, Zhejiang	Commercial	100%	112,356	89,885	Under planning
Lots BLD22-3/4 Hudong Sub-District, Huzhou, Zhejiang	Commercial	100%	117,785	94,228	Under planning
Lots C-7, C-8-1, C-8-2, C-5, C-6-1, C-6-2, B-5 Tantu Construction Project, East Sea, Quanzhou Fengze District, Quanzhou, Fujian	Commercial and residential	49%	381,795	1,762,076	2012 to 2018, in phases
Shanghai Lot E Qingpu District, Shanghai	Residential	51%	434,855	217,428	Under planning
Sub-total			1,163,249	2,294,833	

Projects of the Company	Type of property	Interest attributable to the Company	Approximate site area (square meters)	Planned total GFA (square meters)	Anticipated project commencement and completion date
Shanghai Lot E Qingpu District, Shanghai	Residential	49%	434,855	217,428	Under planning
Shanghai Lot F Qingpu District, Shanghai	Villa	10%	350,533	175,267	Under planning
Shanghai Lot G Qingpu District, Shanghai	Villa	10%	401,274	200,637	Under planning
Sub-total			1,186,662	593,332	
Total			**6,351,389**[8]	**8,239,015**[8]	

Major Investment Properties

Projects of SI Urban Development	Type of property	Interest attributable to SI Urban Development	Total GFA for investment properties (square meters)
Laochengxiang (老城廂) Nankai District, Tianjin	Residential, commercial and office	100%	22,477 [9]
Shanghai Youth City (上海青年城) [1] Songjiang District, Shanghai	Commercial	100%	16,349 [9]
Top City (城上城) Jiulongpo District, Chongqing	Commercial and car park spaces	100%	251,847 [9]
China Phoenix Tower (中國鳳凰大廈) [6] Futian District, Shenzhen, Guangdong	Office	91%	1,048 [9]
Urban Development International Tower (城開國際大廈) Xuhui District, Shanghai	Office	59%	45,239
Huimin Commercial Tower (匯民商廈) Xuhui District, Shanghai	Commercial	59%	14,235
Others Shanghai	Commercial and office	59%	9,249
Sub-total			360,444

Projects of SI Development	Type of property	Interest attributable to SI Development	Total GFA for investment properties (square meters)
Shanghai Industrial Investment Building (上海實業大廈) Xuhui District, Shanghai	Commercial and office	100% 32%	10,089 50,591 (carpark included)
Golden Bell Plaza (金鐘廣場) Huangpu District, Shanghai	Commercial and office	100% 90%	12,270 47,211 (carpark included)
Hi-Shanghai Commercial and Cultural Complex (海上海商業用房及文化設施) Yangpu District, Shanghai	Composite	100%	44,027 (carpark included)
No. 1111, Shangchuan Road (上川路1111號) Pudong New District, Shanghai	Industrial building	100%	40,208
Gao Yang Commercial Centre (高陽商務中心) Hongkou District, Shanghai	Commercial and office	100%	26,668
Commercial Units of Huangpu Estate (黃浦新苑商鋪) Huangpu District, Shanghai	Commercial	100%	20,918 (carpark included)
Gao Yang Hotel (高陽賓館) Hongkou District, Shanghai	Hotel	100%	3,847
Sub-total			255,829
Total			**616,273**

Notes:
1. *Formerly known as Jiujiu Youth City.*
2. *Formerly known as Shanghai Jingjie.*
3. *Formerly known as Neo Water City.*
4. *Formerly known as Tai Yuan Street.*
5. *Formerly known as Forest Garden.*
6. *Formerly known as Phoenix Tower.*
7. *Also known as Jinxiu Mansion.*
8. *There are duplicate figures in the GFA of Shanghai Lot D1,Shanghai Lot D2 and Shanghai Lot E.*
9. *Such total GFAs are duplicate figures, which have been included in the Major Investments Properties table.*

CONSUMER PRODUCTS

During the year, profit contribution from the consumer products business increased by 7.4% over last year to HK$974 million, accounting for approximately 26.4% of the Group's Net Business Profit.

Tobacco

The business of Nanyang Tobacco remained stable throughout the year. Working under such work initiatives as 'market expansion, new product development and technological innovation', the company successfully met all its targets for the year. Looking ahead, the company will focus on upgrading its brand image, enhancing its competitiveness and ensuring sustainable development, with a view to building itself into a tobacco manufacturing enterprise with a global vision and commands a favorable position in the region. In 2012, Nanyang Tobacco saw year-on-year increase of 9.5% and 15.0% in revenue and net profit to reach HK$2,707 million and HK$702 million respectively.

During the year, sales of high margin products has been the main focus of the company to facilitate shift of the product mix toward high value-added merchandise, generating profit growth for the company and thus resulting in an increase in cumulative sales for the year of 3.4%. Restructuring projects for cigarette packaging machines and tobacco production lines were initiated during the year to further enhance the company's production capacity and operating capability.

Printing

The net profit of Wing Fat Printing for the year dropped 9.1% over last year to HK$291 million, mainly due to a decrease in share of profits of its associate, Zhejiang Tianwai, as well as a reduction in profits caused by sales declines as a result of the relocation of the wine packaging operations during the year. Revenue for the year stood at HK$1,029 million, declined year-on-year by 41.8%, mainly owing to a corresponding reduction of sale of its containerboard business in 2012 due to the disposal of the same in May 2011 by Wing Fat Printing.

In June 2012, Wing Fat Printing disposed of all its 70% equity interest in Chengdu Wingfat Printing, mainly for disposing of land assets held under the company, while the existing wine packaging operations were relocated to Qionglai City, Chengdu for lower operating costs. With a consideration of RMB231 million for the transaction, the company obtained a disposal gain of HK$172 million. In addition, to mitigate the risk of a possible decline in the operating results of its associates, Wing Fat Printing signed an agreement in December 2012 to dispose of its entire 30% equity interest in Zhejiang Tianwai to an independent third party. The transaction, which is expected to be completed in the first half of 2013, will realize total proceeds of HK$139 million for the company with an expected disposal gain of approximately HK$90 million.

FINANCIAL REVIEW

KEY FIGURES

	2012	2011 (restated)	Change %
Results			
Revenue (HK$'000)	**19,286,910**	14,969,132	28.8
Profit attributable to Owners of the Company (HK$'000)	**3,438,210**	4,022,575	-14.5
Earnings per share – basic (HK$)	**3.184**	3.725	-14.5
Dividend per share (HK cents)	**108**	108	–
– interim (paid)	**50**	50	
– final (proposed)	**58**	58	
Dividend payout ratio	**33.9%**	28.5%	
Interest cover (note (a))	**7.7 times**	7.6 times	

	2012	2011 (restated)	Change %
Financial Position			
Total assets (HK$'000)	**115,313,011**	115,814,617	-0.4
Equity attributable to Owners of the Company (HK$'000)	**32,409,489**	30,062,368	7.8
Net assets per share (HK$)	**30.00**	27.84	7.8
Net debt ratio (note (b))	**52.01%**	62.66%	
Gearing ratio (note (c))	**43.25%**	44.93%	
Number of shares in issue (shares)	**1,080,249,000**	1,079,785,000	

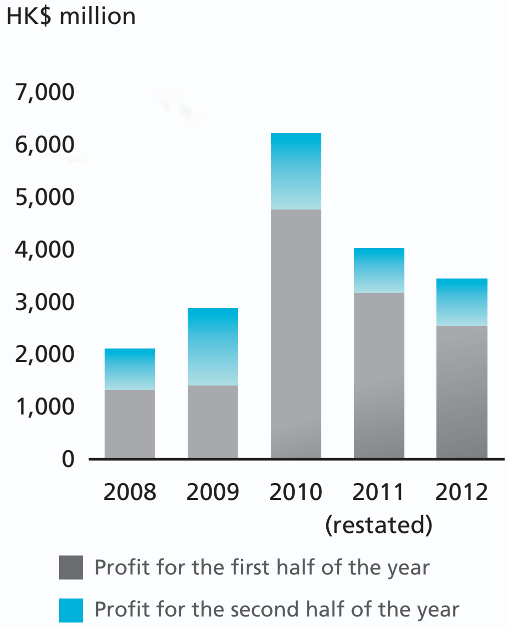
Note (a): (profit before taxation, interest expenses, depreciation and amortization)/interest expenses
Note (b): (interest-bearing loans – cash)/equity attributable to owners of the Company
Note (c): interest-bearing loans/(equity attributable to owners of the Company + non-controlling interests + interesting-bearing loans)

I ANALYSIS OF FINANCIAL RESULTS

1 Profit attributable to Owners of the Company

For the year ended 31 December 2012, the Group recorded a profit attributable to owners of the Company of HK$3,438.21 million, a decrease of HK$584.37 million or approximately 14.5% as compared to 2011.

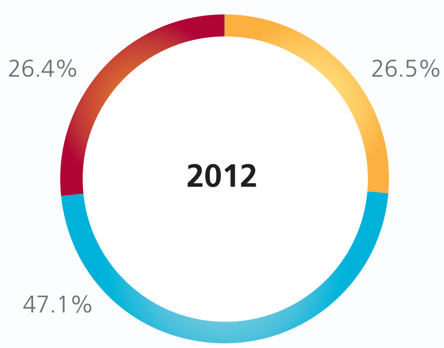
Excluded the net gain of HK$716.99 million arising from disposal of 77% equity interest in Four Seasons Hotel Shanghai last year, the group recorded an increase of HK$132.63 million or approximately 4.0% in profit attributable to owners of the Company as compared to 2011.

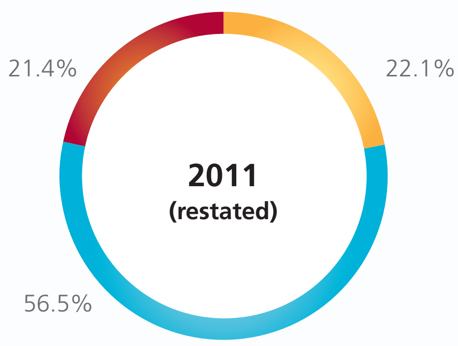


2 Profit Contribution from Each Business

The profit contributed by each business in the Group for the year 2012 and the comparative figures last year was summarized as follows:

	2012 HK$'000	2011 HK$'000 (restated)	Change %
Infrastructure Facilities	**978,127**	938,633	4.2
Real Estate	**1,736,286**	2,397,446	-27.6
Consumer Products	**973,785**	906,646	7.4





Infrastructure Facilities Real Estate Consumer Products

Net profit from the infrastructure facilities business was approximately HK$978.13 million during the year, accounting for 26.5% of Net Business Profit and representing a year-on-year increase of 4.2%. The profit increase was mainly driven by the natural growth in toll revenue achieved by the three expressways. For water business, SI Environment completed several equity restructurings (including the sewage treatment project in Hanxi, Wuhan and the waste incineration power generation project in Wenling Zhejiang), and profit contribution from additional equity interests under the restructurings benefited results of the year. The increase in profit was narrowed by a one-time gain from bargain purchase of SI Environment of approximately HK$37.72 million recorded in last year as a result of acquiring additional interest in and the consolidation of SI Environment.

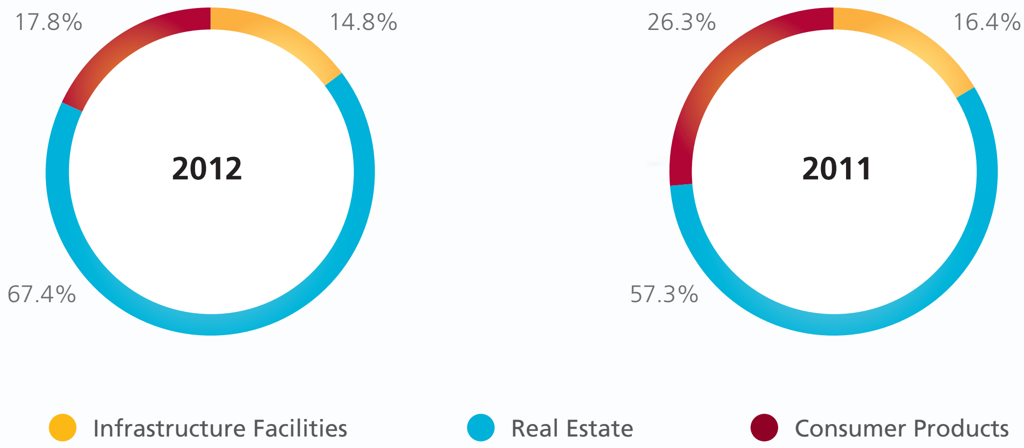
The real estate business recorded a profit of approximately HK$1,736.29 million, accounting for 47.1% of Net Business Profit and representing a decrease of HK$661.16 million compared to last year. The decrease was mainly due to non-recurrence of a net gain of HK$716.99 million on the disposal of 77% equity interest in Four Seasons Hotel Shanghai. Although there was no significant increase in investment income contributed by fair value change in investment properties as in last year, SI Urban Development recorded profits of HK$359.22 million from disposal of the subsidiary holding all of the Park Avenue project in Chengdu and booked property sales from 11 projects resulting in a decrease in the attributable loss from HK$343.51 million to HK$84.91million. An increase in SI Development's revenue for the year of approximately HK$205.14 million as compared to last year; coupled with a reversal of impairment loss from the sale of the Beijing Workers' Gymnasium project completed during the year as well as a profit booked upon the completion of the sale of 50% equity interest in the Tangdao Bay project, the net profit of SI Development attributable to the group increased HK$110.78 million to HK$729.84 million, which partly offset the decrease in profit of the real estate business.

The consumer products business recorded a net profit of HK$973.79 million for the year, accounting for 26.4% of Net Business Profit. Net profit increased year-on-year by HK$67.14 million or 7.4%, mainly due to the fact that Nanyang Tobacco recorded a year-on-year increase of 9.5% in net sales through continuous product mix adjustment, increase in sales of high value-added products and price adjustments during the year. In face of rising production costs, price increases in tobacco leaves and raw materials were partially offset by cost control measures which resulted in a year-on-year growth of HK$91.50 million in net profit. During the year, Wing Fat Printing's packaging and printing business was affected by the rise in material costs resulting in 1.8% gross margin drop year-on-year. Nevertheless, the attributable gain of approximately HK$151.03 million from the disposal of its containerboard operation during last year was offset by an attributable gain of approximately HK$161.11 million recorded upon the completion of the disposal of its entire 70% equity interest in Chengdu Wingfat Printing during the first half of the year.

3 Revenue

The Group's revenue by principal activities for the year 2012 and prior year comparatives was summarized as follows:

	2012 HK$'000	2011 HK$'000	Change %
Infrastructure Facilities	**2,848,463**	2,453,827	16.1
Real Estate	**13,011,356**	8,583,250	51.6
Consumer Products	**3,427,091**	3,932,055	-12.8
	19,286,910	14,969,132	28.8



Revenue for 2012 increased by 28.8% from last year to approximately HK$19,286.91 million, mainly due to increase in property sales booked by SI Urban Development and the consolidation of Nanfang Water's sales after it was acquired by SI Environment. However, the increase was partly offset by the year-on-year decrease in revenue of the consumer products business as a result of the completion of the disposal by Wing Fat Printing of its containerboard operation during last year.

The year-on-year increase in revenue of the infrastructure facilities business was mainly due to the natural growth in toll revenue achieved by the three expressways, and the consolidation of Nanfang Water's sales after it was acquired by SI Environment.

During the year, real estate business booked property sales from a number of property projects, of which, property sales booked by SI Urban Development were mainly from Xi'an "CBE International Peninsula", Shanghai "Shanghai Jing City", and Shanghai "Urban Cradle", while property sales booked by SI Development were mainly from Tianjin "Rhine Town", Harbin "Longines Bay", Dali "Sea Melody", and Chongqing "Waterscape & Sky Garden".

Regarding the revenue of the consumer products business, Nanyang Tobacco maintained stable growth, which was offset by a significant year-on-year decrease in sales of Wing Fat Printing as a result of the completion of the disposal of its containerboard operation during last year.

4 Profit before Taxation

(1) Gross profit margin

Gross profit margin for the year was 28.9%, a decrease of 6.6 percentage points as compared to 35.5% for last year. The decrease in gross profit margin was mainly due to a portion of the property sales booked in respect of the real estate business for the year were lower gross margin commodity housing.

(2) Net investment income

Investment income increased as compared to last year mainly due to an increase in interest income.

(3) Other income

Other income for the year mainly comprised of a reversal of impairment loss of HK$587.08 million for a property project and compensation income of the related project of HK$178.70 million while that of last year was mainly attributable to the gains from change in fair value of investment properties of approximately HK$600 million.

(4) Gain on disposal of interests in subsidiaries holding property interests and gain on disposal of interests in other subsidiaries, jointly controlled entities and associates and gain on disposal of Feng Shun

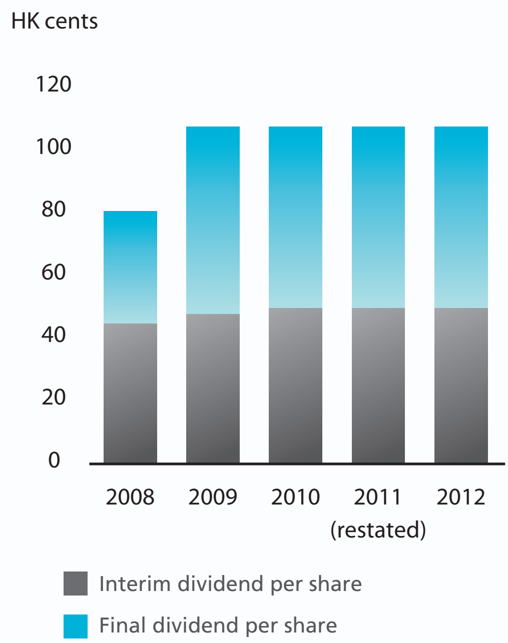
During the year, the Group completed the disposal of 90% equity interest in Lot G of Qingpu land and recorded a pre-tax disposal gain of approximately HK$1,276.52 million. During the year, the Group also completed the disposals of the Park Avenue project in Chengdu, the Tangdao Bay project and the entire 70% equity interest in Chengdu Wingfat Printing and recorded pre-tax disposal gains totaling HK$668.56 million. During last year, the Group completed the disposal of 90% equity interest in Lot F of Qingpu land, 77% equity interest in Four Seasons Hotel Shanghai, the Quanzhou project, 50% equity interest in the Qingdao project, 100% equity interest in Shanghai Bay project and the entire 78.13% equity interest in Hebei Yongxin Paper Co., Ltd. etc. and recorded pre-tax disposal gains totaling HK$3,034.82 million.

(5) Gain from bargain purchase of interests in subsidiaries

Last year, the Group's equity interest held in SI Environment was increased to a controlling stake and a gain from bargain purchase of approximately HK$37.72 million was recorded; and SI Environment also recorded a gain from bargain purchase of approximately HK$35.95 million arising from its acquiring additional equity interest in the sewage treatment project in Hanxi, Wuhan.

5 Dividends

The Group continued to adopt a stable dividend payout policy. The Board of Directors has proposed a final dividend of HK58 cents per share. Together with an interim dividend of HK50 cents per share, the total dividend amounts to HK108 cents per share for 2012, maintaining the same total dividend amounts of 2011.

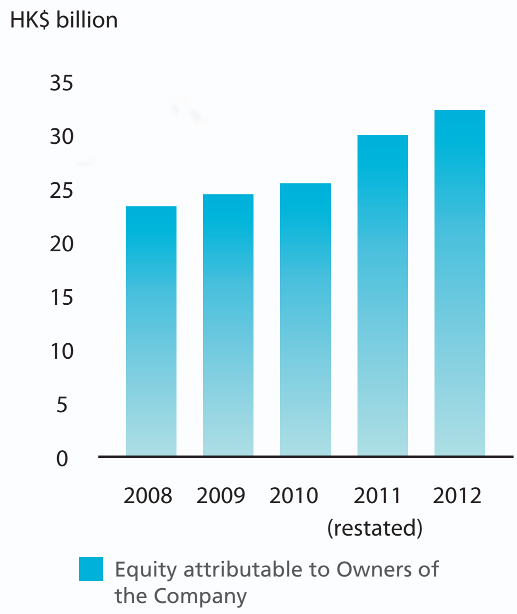


II FINANCIAL POSITION OF THE GROUP

1 Capital and Equity attributable to Owners of the Company

The Group had a total of 1,080,249,000 shares in issue as at 31 December 2012, which was increased by 464,000 shares as compared with 1,079,785,000 shares in issue as at the end of 2011. The increase is mainly attributable to the exercise of share options by employees during the year.

The equity attributable to owners of the Company reached HK$32,409.49 million as at 31 December 2012, which was attributable to the net profits after deducting the dividend actually paid during the year.



2 Indebtedness

(1) Borrowings

During the year, the Group through a wholly-owned subsidiary, SIHL Finance Limited concluded a bilateral bank loan facility of HK$700 million, which was applied to repay a multi-lateral term and revolving loan of HK$4.9 billion due in 2012. In addition, in 2012, the Company also concluded a revolving loan facility of US$20 million (or its equivalent in HK$) and a revolving loan facility of HK$350 million (or its equivalent in US$) for the Group as stand by working capital facilities.

As at 31 December 2012, the total borrowings of the Group including bank borrowings, other borrowings and senior notes amounted to approximately HK$36,763.90 million (31 December 2011: HK$37,102.45 million), of which 64.6% (31 December 2011: 68.4%) was unsecured credit facilities.

(2) Pledge of assets

As at 31 December 2012, the following assets were pledged by the Group to banks to secure general banking facilities granted by these banks to the Group:

(a) investment properties with an aggregate carrying value of HK$5,633,930,000 (31 December 2011: HK$6,221,268,000);

(b) leasehold land and buildings with an aggregate carrying value of HK$11,516,000 (31 December 2011: HK$128,455,000);

(c) plant and machineries with an aggregate carrying value of HK$194,102,000 as at 31 December 2011 (31 December 2012: Nil);

(d) one (31 December 2011: two) toll road operating right of HK$3,359,512,000 (31 December 2011: HK$10,708,600,000);

(e) receivables under service concession arrangements with an aggregate carrying value of HK$1,900,411,000 (31 December 2011: HK$94,070,000);

(f) properties under development held for sale with an aggregate carrying value of HK$10,767,128,000 (31 December 2011: HK$7,712,800,000);

(g) properties held for sale with an aggregate carrying value of HK$30,545,000 as at 31 December 2011 (31 December 2012: Nil);

(h) trade receivables with an aggregate carrying value of HK$174,926,000 (31 December 2011: HK$132,363,000); and

(i) bank deposits with an aggregate carrying value of HK$447,838,000 (31 December 2011: HK$333,594,000).

(3) Contingent liabilities

As at 31 December 2012, the guarantees given to banks by the Group in respect of banking facilities utilised by an entity controlled by Xuhui District State Owned Asset Administrative Committee, a former subsidiary and property buyers amounted to approximately HK$393.04 million, Nil and HK$2,037.26 million (31 December 2011: HK$266.27 million, HK$61.64 million and HK$2,954.70 million) respectively.

3 Capital Commitments

As at 31 December 2012, the Group had capital commitments mainly contracted for business development and investments in fixed assets of HK$7,319.36 million (31 December 2011: HK$6,174.94 million). The Group had sufficient internal resources or through loan market channel to finance its capital expenditures.

4 Bank Deposits and Short-term Investment

As at 31 December 2012, bank balances and short-term investments held by the Group amounted to HK$19,909.21 million (31 December 2011: HK$18,265.72 million) and HK$408.37 million (31 December 2011: HK$856.31 million) respectively. The proportions of US dollars and other currencies, Renminbi and HK dollars were 5%, 85% and 10% (31 December 2011: 16%, 66% and 18%) respectively. Short-term investments mainly consisted of investments such as bonds, Hong Kong and PRC listed shares.

While having sufficient working capital and a healthy interest cover, the Group is monitoring the market situation and the funding requirements for business development, will seek opportunities to optimize capital structure should the need arise.

III MANAGEMENT POLICIES FOR FINANCIAL RISK

1 Currency Risk

The Group mainly operates in China and the Hong Kong Special Administrative Region and the exposure in exchange rate risks mainly arises from fluctuations in the US dollar, HK dollar and Renminbi exchange rates. As the HK dollar and Renminbi are both under managed floating systems, the Group, after reviewing its exposure for the time being, did not enter into any derivative contracts aimed at minimizing exchange rate risks during the year. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

2 Interest Rate Risk

The Group's fair value and cash flow interest rate risks mainly relate to fixed and variable rates borrowings respectively. In order to exercise prudent management against interest rate risk, the Group continues to review the market trend, as well as its business operations needs and its financial position, so as to arrange the most effective interest rate risk management tools.

3 Credit Risk

The Group's principal financial assets are bank balances and cash, equity and debt investments, trade and other receivables. The Group's trade and other receivables presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made according to the Group's accounting policy or where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

With respect to the credit risk of the Group's treasury operations, the Group's bank balances and cash, equity and debt investments must be placed and entered into with financial institutions of good reputation. There are strict requirements and restrictions as to the outstanding amount and credit ratings on equity and debt investments to be held, so as to minimize the Group's credit risk exposure.

4 Equity Price Risk

The Group and the Company is exposed to equity price risk through its investment in equity securities classified as either available-for-sale investments or financial assets at fair value through profit or loss. Management manages this exposure by maintaining a portfolio of investments with different risks. The Group and the Company's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange and the Shanghai Stock Exchange. In addition, management has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

CORPORATE GOVERNANCE REPORT

Dedicated to maintaining effective corporate governance practices, the Group has made continuous efforts to enhance corporate transparency and accountability. To strengthen operating capabilities, maximize operational efficiency, and protect the interests of shareholders and stakeholders, we have adopted a sound risk assessment and management process as well as a standardized internal control mechanism, thereby creating higher returns.

CORPORATE GOVERNANCE STRUCTURE

Through a sound and effective corporate governance framework, the Board has been committed to corporate governance throughout its decision-making process. Different functional committees and administrative organizations have been established to ensure that the principles of good governance are observed and that corporate governance measures formulated are properly implemented.

In accordance with requirements for the Corporate Governance Code, the Company has during the year conducted an annual review on the effectiveness of its internal control system as well as that of its subsidiaries, in addition to internal audits currently conducted for subsidiaries within the Group. The scope of such reviews covered financial, operational and compliance controls and risk management. During the year, professional training and information on laws and regulations applicable to mainland China and Hong Kong in view of changes on regulatory systems and legal requirements applicable thereto were given to new and existing member companies. Apart from this, financial information control has been further improved through the introduction of a newly established platform for financial information management and analysis to the Group's member companies, resulting in a financial information system that is more timely and comprehensive.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions set out in the Code on Corporate Governance Practices and the Corporate Governance Code for the respective periods of 1 January 2012 to 31 March 2012 and 1 April 2012 to 31 December 2012, except for deviations from A.6.7 and E.1.2 of the Corporate Governance Code as described below. An Independent Non-Executive Director, who was then also the chairman of the Audit Committee, Remuneration Committee and Nomination Committee, was unable to attend the annual general meeting and extraordinary general meeting of the Company both held on 25 May 2012 due to overseas business engagements. Details of the principles and practices of governance of the Company and all major work and relevant changes during the year are set out in this report.

In response to new amendments to the provisions of corporate governance which became effective successively since early last year, corporate governance practices in a number of areas have been improved, inter alia, the creation of a Nomination Committee under the Board, amendments to the terms of reference of the existing Board committees, arrangements for continuing training for Directors, implementation of monthly management updates as well as the formulation of a number of corporate governance policies.

STRATEGIC OBJECTIVES AND BUSINESS MODEL

In accordance with its work plans, the Group has strategically positioned itself as a Hong Kong based company that relies on mainland China. Through effective allocation of resources outside the country as well as integration of capital and business operations, the Group has successfully turned itself into an enterprise that built its foundation on its three core areas of business, including Real Estate, Infrastructure and Environment as well as Consumer Products. Capitalizing on China's future development opportunities, the Group strives to become a comprehensive investment red chip window company that will constantly create the best value for its shareholders. Based on its own resources and the market development at home and abroad, the Company will pursue the steady development of its real estate business and continue to expand the infrastructure and environment business while striving to enhance the growth of its consumer products business over the next three years.

BOARD OF DIRECTORS

The Board of Directors represents the highest level of authority in the governance structure of the Company. It is mainly responsible for formulating the Group's long term business development strategies and operational direction, monitoring the Group's business and financial performance, formulating and reviewing the Group's corporate governance policies and day to day operations, as well as leading and supervising the management to ensure thorough implementation of the Board's decisions and effective performance of their duties.

Composition of the Board

As of the date of this report, the Board of Directors of the Company consists of ten members as belows:

Name of Director	Executive position in the Board	Years of Service
Executive Directors		
Teng Yi Long	Chairman	5 years
Zhou Jie	Vice Chairman and Chief Executive Officer	11 years
Lu Shen	Executive Deputy CEO	3.5 years
Zhou Jun	Deputy CEO	7.5 years
Xu Bo	Deputy CEO	1 year
Qian Yi	Deputy CEO	3.5 years
Independent Non-Executive Directors		
Lo Ka Shui	–	17 years
Woo Chia-Wei	–	17 years
Leung Pak To, Francis	–	17 years
Cheng Hoi Chuen, Vincent	–	0.5 year

The members of the Board of the Company comprise professionals from different areas who have served in relevant PRC judiciary authorities, enterprises and financial institutions in mainland China and Hong Kong, all of whom have extensive experience in corporate and financial administration, project management, asset management and international business.

No members of the Board are materially related among themselves in terms of financial, business and family. Brief biographical details of the Directors are set out on pages 47 to 50 of this Annual Report. In all corporate communications channels as well as websites of the Company and the Stock Exchange, the composition of the Board according to the categories and duties of the Directors are disclosed.

Mr. Teng Yi Long and Mr. Zhou Jie are the Chairman and the Chief Executive Officer of the Company respectively. Interpretation of the Responsibilities between the Chairman and the Chief Executive Officer have been adopted for the distinction of powers and responsibilities between the two positions.

Independent Non-Executive Directors

Independent Non-Executive Directors and Executive Directors have the same fiduciary duties. The number of Independent Non-Executive Directors accounts for more than one-third of the number of members of the Board while not less than one of the Independent Non-Executive Directors has the relevant financial expertise required by the Company. All Independent Non-Executive Directors are also members of the respective Audit Committee, Remuneration Committee and Nomination Committee. Confirmation from each Independent Non-Executive Director concerning his independence according to Rule 3.13 of the Listing Rules has been received and they are considered to be independent. During the year, a meeting has been held by the Chairman with the Independent Non-Executive Directors at which no Executive Director was present.

Replacement of Directors

For the year ended 31 December 2012 and up to the date of this report, the following changes were made to the Board of the Company:

- On 25 April 2012, as their retirement ages have been reached, (1) Mr. Cai Yu Tian has resigned as an Executive Director, the Vice Chairman and Chief Executive Officer of the Company; and (2) Mr. Qian Shi Zheng has resigned as an Executive Director and a Deputy CEO of the Company. On the same date, being nominated by the Nomination Committee of the Company, (1) Mr. Zhou Jie has been re-designated as the Vice Chairman and Chief Executive Officer of the Company and ceased to be the Executive Deputy CEO of the Company; and (2) Mr. Lu Shen has been appointed as an Executive Director and the Executive Deputy CEO of the Company.

- On 13 November 2012, being nominated by the Nomination Committee of the Company, Mr. Cheng Hoi Chuen, Vincent has been appointed as an Independent Non-Executive Director of the Company.

- On 28 December 2012, Mr. Lu Ming Fang has resigned as an Executive Director of the Company. On the same day, Mr. Xu Bo, being nominated by the Nomination Committee of the Company, has been appointed as an Executive Director and a Deputy CEO of the Company.

Terms of the Directors

According to the Directors' service agreements entered into between the Company and six Executive Directors respectively, any party may terminate the agreement by giving to the other party prior written notice. In addition, the Company also issued letters of appointment for four Independent Non-Executive Directors, specifying an appointment term of three years, subject to renewal upon expiry.

At the 2012 annual general meeting, Mr. Teng Yi Long, Mr. Lu Ming Fang and Mr. Leung Pak To, Francis retired by rotation and were re-elected in accordance with the Company's articles of association. In addition, as Mr. Leung Pak To, Francis has served in the Company for more than nine years, his further appointment was approved by shareholders pursuant to a separate resolution proposed by the Company in accordance with the relevant requirements set out in the Corporate Governance Code; while Mr. Lu Shen was also re-elected and further appointed in accordance with the Company's articles of association and the requirements set out in the Corporate Governance Code.

At the upcoming 2013 annual general meeting, Mr. Qian Yi, Dr. Lo Ka Shui and Prof. Woo Chia-Wei shall retire by rotation in accordance with the articles of association of the Company. All of them, being eligible, have offered themselves for re-election, while Mr. Xu Bo and Mr. Cheng Hoi Chuen, Vincent shall retire at the meeting and offer themselves for re-election by shareholders in accordance with the Company's articles of association and the Corporate Governance Code. Their biographical details as well as the resolutions and explanatory statement for the re-election of Dr. Lo Ka Shui and Prof. Woo Chia-Wei, who have served in the Company for more than nine years, as Independent Non-Executive Directors are set out in the circular to shareholders to be dispatched together with this Annual Report, so as to enable shareholders to make an informed decision on their election.

Responsibilities of Directors

Each Director shall take an active participation in the Company's affairs and shall have proper understanding of the operations, business activities and development of the Company and shall ensure that sufficient time and effort will be given to the Company's affairs in order to perform his responsibilities as a Director of the Company. The Company has established the Procedures for Directors to Seek Professional Advice. The Directors (also refers to the board committee members) may seek independent professional advice according to such agreed procedures at the expense of the Company. During the year, the Company has offered induction materials to each newly appointed Director as well as necessary information and training during his term of appointment.

The Company also arranged liabilities insurance for directors and officers of the Company and its subsidiaries, providing certain protection for any legal liabilities risks they may have involved in the discharge of their duties as well as to possible legal claims made against the respective companies as a result.

Proceedings at Directors' Meetings

The schedule for convening regular meetings of the Board (also refers to the board committees) for the whole year will be set at the end of the preceding year. The Board will convene at least four regular meetings a year. Save for non-regular meetings, notices of board meetings and relevant materials will be given 14 days and 3 days before the date of the regular meetings of the Board (also refers to the board committees). The Company Secretary will confirm with the Directors if any matters are required to be included in the agenda for regular board meetings before they are sent out.

Meeting minutes are kept with the Company Secretary, copies of which will be sent to each Director for inspection and safekeeping. All matters considered and resolved at the meetings, including any concerns raised by Directors or dissenting views expressed will be recorded in the minutes. Board papers and related materials are open for inspection at any time by any Director.

If a substantial shareholder or a Director has a material conflict of interest in a matter to be considered by the Board, the matter will be dealt with by a physical board meeting rather than a written resolution. If any resolution of the board meeting involves material interests of any Director or any of his associates, such Director shall abstain from voting and shall not be counted in the quorum present at the meeting.

In 2012, 14 board meetings were held by the Company (11 of which were in the form of written resolutions), with an attendance rate of 100%. Please refer to the Business Review, Discussion and Analysis of this Annual Report for material decisions made by the Board during the year. The attendance of individual Directors and committee members in 2012 is set out below:

	Meetings held in 2012 Meetings attended/Meetings held					
	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Number of meetings held in the year	**14**	**9**	**3**	**5**	**3**	**3**
Executive Directors						
Teng Yi Long	14/14	9/9	–	–	–	3/3
Zhou Jie	14/14	9/9	–	–	–	2/3
Lu Shen [1]	7/7	9/9	–	–	–	2/2
Zhou Jun	14/14	9/9	–	–	–	3/3
Xu Bo [2]	0/0	0/0	–	–	–	0/0
Qian Yi	14/14	9/9	–	–	–	3/3
Independent Non-Executive Directors						
Lo Ka Shui	14/14	–	3/3	5/5	3/3	2/3
Woo Chia-Wei	14/14	–	3/3	5/5	3/3	3/3
Leung Pak To, Francis	14/14	–	3/3	5/5	3/3	3/3
Cheng Hoi Chuen, Vincent [3]	2/2	–	1/1	1/1	1/1	0/0
Committee Members						
Li Han Sheng [4]	–	–	–	4/4	3/3	–
Guo Fa Yong	–	–	–	5/5	3/3	–
Attendance	**100%**	**100%**	**100%**	**100%**	**100%**	**91%**

Notes:

1. Appointed on 25 April 2012.
2. Appointed on 28 December 2012.
3. Appointed on 13 November 2012.
4. Appointed on 25 April 2012.
5. The attendance is accounted for by reference to the number of board meetings held during the tenure of each respective Director.

Securities Transactions by Directors

The Company has established its own Code for Securities Transactions by Directors or Relevant Employees, which was set on terms no less exacting than the required standards set out in the Model Code. Having made enquiries with all Directors and relevant employees of the Company, each of them has confirmed that the requirements of the Model Code and the Company's code were fully complied with during 2012.

Directors Training

In accordance with the Corporate Governance Code, all Directors shall participate in continuing professional development to develop and refresh their knowledge and skills so as to make contribution to the Board. As a result, arrangements have been made by the Company to provide appropriate training programs for Directors with regard to the latest developments of the Listing Rules and other applicable regulatory requirements. The Directors shall also provide to the Company with their respective training records according to the Corporate Governance Code.

During the year, the Company has arranged three appropriate Directors' trainings, details of which were included in the Directors' respective training records. The three trainings covered topics relating to the management, exercise mechanism and related regulations of share options, as well as compliance issues with respect to the Listing Rules and Securities and Futures Ordinance. Based on the Directors' training records, trainings received by each Director during the period from 1 April 2012 to 31 December 2012 are summarized as follows:

	Continuing professional development category	
Name of Director	To participate in trainings covering business, industries, corporate governance, regulatory development and other related topics	To read newspaper, publications and updated information about economics, commerce, directors duties, etc.
Executive Directors		
Teng Yi Long	√	√
Zhou Jie	√	√
Lu Shen	√	√
Zhou Jun	√	√
Xu Bo	√	√
Qian Yi	√	√
Independent Non-Executive Directors		
Lo Ka Shui	√	√
Woo Chia-Wei	√	√
Leung Pak To, Francis	√	√
Cheng Hoi Chuen, Vincent	√	√

Functions of Corporate Governance

The Board of the Company is responsible for performing corporate governance duties to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; to review and monitor the training and continuing 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) applicable to employees and Directors; and to review Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Company also provides corporate governance guidelines and information from time to time to the Board members and member companies according to the latest laws and regulations. During the year, in response to provisions under the SFO and the Listing Rules on the disclosure of inside information which take effect in 2013, the Company has established its own Inside Information Disclosure System, with a view to introducing the principles of good corporate governance and reporting requirements, ensuring information disclosure compliance and enhancing transparency in business operations.

DELEGATION BY THE BOARD

Board Committees

Four committees have been established under the Board, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. All committees are responsible to the Board, and shall report to the Board on the decisions or recommendations they made. The terms of reference of the Company's Audit Committee, Remuneration Committee and Nomination Committee have been published on the Company's website and the website of the Stock Exchange.

Executive Committee

A decision-making administrative body under the Board, the Executive Committee, is primarily responsible for taking charge of the Company's day-to-day operations, ensuring proper execution of the resolutions approved by the Board and at the general meetings, and reviewing major business activities and investments.

For the year ended 31 December 2012 and up to the date of this report, changes of the Executive Committee are as follows:

- On 25 April 2012, Mr. Cai Yu Tian and Mr. Qian Shi Zheng has resigned as a committee member. On the same date, Mr. Lu Shen was appointed as a member thereof.
- On 28 December 2012, Mr. Lu Ming Fang has resigned as a committee member. On the same date, Mr. Xu Bo was appointed as a member thereof.

All members of the Executive Committee are Executive Directors and following the said changes and replacements, as of the date of this report, members of the committee included Mr. Teng Yi Long, Mr. Zhou Jie, Mr. Lu Shen, Mr. Zhou Jun and Mr. Xu Bo. Mr. Teng Yi Long is the Chairman of the committee.

Major Work Done by the Executive Committee

In 2012, the Executive Committee held nine meetings in the form of written resolutions. Matters considered included acquisitions and disposals, approval of loans and borrowings, formulation of internal policies, etc., with an attendance rate of 100%.

Audit Committee

The Audit Committee is mainly responsible for reviewing accounting policies and practices adopted by the Group. The committee also discusses matters relating to financial reporting as well as internal control and risk management, selects, appoints and dismisses external auditor and monitors the relationship between the Company and external auditor and makes recommendations to the Board accordingly.

For the year ended 31 December 2012 and up to the date of this report, the following members of the Audit Committee were changed:

- On 13 November 2012, Mr. Cheng Hoi Chuen, Vincent was appointed a member of the Audit Committee, and succeeded Dr. Lo Ka Shui as chairman of the committee.
- On 26 March 2013, Dr. Lo Ka Shui resigned from the Audit Committee due to heavy personal endeavours.

Following the said changes and replacements, as of the date of this report, members of the Audit Committee included Mr. Cheng Hoi Chuen, Vincent, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis. Mr. Cheng Hoi Chuen, Vincent is the chairman of the committee. The Company Secretary acts as committee secretary.

Major Work Done by the Audit Committee

In 2012, the Audit Committee held three meetings, with a 100% attendance. Matters considered at the meetings included review of the Group's results, review of the Company's financial reporting, internal control and risk management system, review of internal audit, non-audit services, human resources for accounting and financial reporting functions as well as the engagement of a statutory auditor for the coming year. During the year, one meeting was held in the absence of Executive Directors for the Audit Committee to meet with the auditor.

Remuneration Committee

The Remuneration Committee is mainly responsible for reviewing the remuneration policy and structure of the Company as a whole and ensuring effective implementation of such policies. The committee also makes recommendations to the Board on the establishment of formal and transparent procedures for setting remuneration policies and structure in regard to the Directors and senior management. The committee will make recommendations to the Board in respect of the remuneration of Directors and senior management in accordance with corporate strategies and goals set up by the Board, provided that none of the Directors will determine his own remuneration.

As of the date of this report, members of the Remuneration Committee included four Independent Non-Executive Directors, namely Dr. Lo Ka Shui, Prof. Woo Chia-Wei, Mr. Leung Pak To, Francis and Mr. Cheng Hoi Chuen, Vincent, who was appointed a committee member on 13 November 2012, as well as representatives from the management, namely Mr. Li Han Sheng and Mr. Guo Fa Yong. Dr. Lo Ka Shui is the chairman of the committee while the Company Secretary acts as the committee secretary. On 25 April 2012, Mr. Zhang Zhen Bei resigned as a committee member due to job transfer and on the same date, Mr. Li Han Sheng was appointed a member thereof.

Major Work Done by the Remuneration Committee

In 2012, the Remuneration Committee held five meetings, four of which were in the form of written resolutions, with a 100% attendance. Matters considered included distribution and payment of discretionary bonuses to the Directors, proposed adjustments for the remuneration of Directors and senior management, service agreement/letter of appointment of newly appointed Directors and determination of Board committee members' remuneration.

According to the Company's performance appraisal policies, the salaries of the employees will be reviewed annually, taking into account the Company's performance, individual performance of the staff and industry average to ensure a reasonable and competitive compensation package for its employees. To motivate performance, share options were also granted to employees and Directors.

Determination of Directors' Remuneration

The remuneration of the Directors was determined with reference to the operating results of the Company, industry benchmarks and dedication of time by the Directors and their job responsibilities. Apart from basic salaries, the Directors are entitled to a discretionary bonus subject to the operating results of the Group, prevailing market conditions as well as the performance of the respective Directors.

Nomination Committee

The Nomination Committee was established in March 2012 with the Terms of Reference of Nomination Committee being formulated in accordance with the Corporate Governance Code. The committee is mainly responsible for setting highly transparent procedures of appointing new directors and director succession plans and making recommendations to the Board for candidates of new directors or for filling casual vacancies of the Board. The process of nomination starts from recommending a candidate to the committee by the controlling shareholder of the Company, after which the committee will consider submission of the candidate to the Board for consideration based on the working experience, expertise and education background required for the position and the time and effort that the candidate may contribute to the Company.

As of the date of this report, members of the Nomination Committee included four Independent Non-Executive Directors, namely Dr. Lo Ka Shui, Prof. Woo Chia-Wei, Mr. Leung Pak To, Francis and Mr. Cheng Hoi Chuen, Vincent, who was appointed a committee member on 13 November 2012, as well as representatives from the management, namely Mr. Li Han Sheng and Mr. Guo Fa Yong. Dr. Lo Ka Shui is the chairman of the committee while the Company Secretary acts as the committee secretary. On 25 April 2012, Mr. Zhang Zhen Bei resigned as a committee member due to job transfer and on the same date, Mr. Li Han Sheng was appointed a member thereof.

Major Work Done by the Nomination Committee

In 2012, the Nomination Committee held three meetings, all in the form of written resolutions, with a 100% attendance. Matters considered included changes of directorships, nomination of directors and review of the structure, size and composition of the Board.

EXECUTIVE MANAGEMENT

Management Executives

The Executive Committee has given clear terms of reference on the power of the management executives, especially on the Company's day-to-day operations and management, investment projects, finance, auditing, human resources as well as investment company operations. The management executives are responsible for the supervision of the day-to-day operations of the respective functional departments and for reporting to the Executive Committee/Board. The Board will review the scope of power and responsibilities delegated to the management executives from time to time to ensure the maintenance of a highly effective management system.

As of the date of this report, members of the management executives included Mr. Zhou Jie, Mr. Lu Shen, Mr. Zhou Jun, Mr. Xu Bo, Mr. Ni Jian Da, Mr. Qian Yi and Mr. Li Han Sheng. The functional departments of the Company included Administration, Company Secretarial, Corporate Communications, Finance, Human Resources, Internal Audit, Legal, Investment Operations and Shanghai Regional Head Office.

Investment Appraisal Committee

The Company has established an Investment Appraisal Committee to evaluate the viability of its investment projects from different perspectives. Professional views are given by various functional departments based on the Company's overall business investment strategies. After studying carefully the key project elements, such as industry background, organizational structure, business development plans, return on investment, financial and legal risk issues, the committee will form independent professional opinion and submit their recommendations and reports to the management executives for consideration. Such appraisals will then be submitted to the Executive Committee for approval according to procedures governing corporate investment decision-making processes. The Investment Appraisal Committee mainly comprises representatives from functional departments at the Hong Kong headquarters. Current members of the committee are the Head of the Investment Operations Department, the Company Secretary, the Chief Legal and Compliance Officer and the Chief Financial Officer. During the year, the Investment Appraisal Committee conducted appraisals on six projects.

ACCOUNTABILITY AND AUDITING

Appointment of External Auditor

In considering the re-appointment of external auditors, the Audit Committee has taken into consideration its relationship with the Company and its independence in the provision of non-audit services. An independence report has already been submitted to the committee by the external auditor. Pursuant to the above, the Audit Committee has recommended the Board to re-appoint Deloitte Touche Tohmatsu as the external auditor for the Company for 2013, subject to approval by shareholders at the annual general meeting to be held on 21 May 2013.

The Company has also established Policies on Provision of Non-audit Services by External Auditor, and non-audit services were reported to the Audit Committee each year. Audit fees for the audit and non-audit services provided to the Group by the Company's external auditor (including its affiliates) for the year ended 31 December 2012 were as follows:

Type of Service	2012 *HK$'000*	2011 *HK$'000*
Audit services	15,059	10,067
Non-audit services	10,296	9,459
Total	**25,355**	**19,526**

Preparation of Financial Statements

The financial statements and interim report of the Company were prepared in accordance with the disclosure requirements set forth in Appendix 16 to the Listing Rules, Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants. The Board is responsible for preparing and reviewing the Group's accounts to ensure that they give a true and fair view on the financial position as well as the profits and cash flows of the Company. The Company has consistently applied appropriate accounting policies, and has made prudent and reasonable judgments and estimates and prepared its accounts on a going concern basis. The external auditor stated in the independent auditor's report its reporting responsibilities on the relevant financial statements, and such report is set out on pages 65 and 66 of this Annual Report.

In accordance with the Corporate Governance Code, arrangements have been made by the management since April 2012 to provide monthly management updates to the Directors setting out updated information on the performance, financial status and prospects of the Company, to assist the Directors in performing their duties under the Listing Rules.

Internal Control

The Board is responsible for ensuring a sound, proper and effective internal control system of the Group so as to safeguard the assets of the Company and the investments of the shareholders. The Board also endeavors to maintain sound risk management and internal control systems. An Internal Audit Department has been established for monitoring the prudent and effective operation of the internal control system of the Group (including all its major member companies) and respective reports will be regularly made to the Audit Committee and the Board on a quarterly basis. The internal audit system is currently conducted in a cycle of three years. Internal audits will be conducted for subsidiaries within the Group for the purpose of risk assessment according to the significance of the respective projects.

For the year ended 31 December 2012, the Company has collected information and carried out investigation in respect of internal control issues for its subsidiaries. No material deviation in the compliance with guidance on internal controls by the subsidiaries was reported. These subsidiaries have complied with relevant laws and industry regulations in respect of legal compliance. No material non-compliance of rules or material litigation risk was reported, nor was there any fraud or corruption issue. In addition, the Board and the Audit Committee considered the resources allocated, staff qualification and experience in respect of the accounting and financial reporting functions of the Company as well as training programs and budget were adequate and sufficient.

SHAREHOLDERS

As at 31 December 2012, SIIC, the controlling shareholder of the Company, held 616,434,748 shares of the Company with a shareholding percentage at approximately 57.06%. The percentage of public shareholding was approximately 42.94%.

Connections with Shareholders, Other Stakeholders and Investors

The Company has established Shareholders' Communication Policy to ensure that shareholders are provided with equal, timely and transparent access to comprehensive, identical and understandable information about the Company (including financial reporting, operating performance and latest business developments). This will enable shareholders to exercise their powers in an informed manner, and to allow shareholders and investors to improve communications with the Company. The Company will from time to time review the relevant policy and strictly comply with internal guidelines and legal and regulatory requirements regarding public information disclosure to ensure effective and timely transmission of information to shareholders and investors. Annual reports, interim reports and results issued by the Company each year as well as shareholders' circulars and press releases are published on the website of the Company.

The Board also attaches great importance to shareholders' opinion. Each annual general meeting has been taken as an opportunity to communicate directly with shareholders and questions raised by them will be addressed. Shareholders, other stakeholders and investors are also welcome to voice their concerns and valuable opinions by way of e-mails, telephone and in writing. This will be directed to the Company Secretary and forwarded to the Board. Enquiry can be made through different ways as set out on page 3 of this Annual Report.

Proceedings at General Meetings

The Company has established proceedings at general meetings which are subject to review and amendments according to regulatory requirements from time to time. Notices convening the Annual General Meeting and Extraordinary General Meeting were given to shareholders at least twenty and ten clear business days prior to the date of the general meetings; details of each proposed resolution and other information disclosed as required under the Listing Rules have also been set out in the circular dispatched with the notice of the general meetings.

During the year, at a general meeting of the Company, the chairman of the meeting has exercised the power conferred under the articles of association of the Company that all voting for each proposed resolution were conducted by way of poll, with detailed procedures for voting by poll being provided to shareholders and all questions raised regarding voting being answered as well. Poll results will be published by announcements on the same day of such general meetings after they are held, while the same will be uploaded on the website of the Company and the website of the Stock Exchange for perusal by shareholders.

Rights of Shareholders

Shareholders who wish to convene an extraordinary general meeting and move a motion thereat shall abide by the provisions under the Companies Ordinance and the articles of association of the Company. Details of the relevant requirements and procedures are set out in the relevant sections of Corporate Governance in the Company's website.

Convening an Extraordinary General Meeting

Pursuant to Section 113 of the Companies Ordinance, shareholders holding not less than one-twentieth of the paid-up capital of the Company may request the Board of the Company to convene an extraordinary general meeting. The requisition must state the objectives of the meeting and must be signed by the person who requested the meeting and deposited at the registered office of the Company for the attention of the Company Secretary.

Moving a Motion at General Meeting

Pursuant to Section 115A of the Companies Ordinance, (1) any number of shareholders representing not less than one-fortieth of the total voting rights of all members of the Company; or (2) not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000 may move a motion for consideration at a general meeting of the Company by a written request duly signed by the shareholders concerned and depositing the same to the registered office of the Company for the attention of the Company Secretary.

Recommendations of Director Candidates

Pursuant to article 105 of the articles of association of the Company, if a shareholder intends to nominate a person other than the retiring Directors for election as a director at a general meeting, he/she shall deposit a written notice of such nomination to the Company's registered office for the attention of the Company Secretary during the period commencing on the day after the dispatch of the notice of such meetings and ending no later than seven days prior to the date appointed for such meetings.

INVESTOR RELATIONS

During the year, in face of the severe challenges of financial markets instability induced by the escalating European debt crisis and macroeconomic control regulations in mainland China, the Company has been actively communicating with the investment community, in line with the strategy of proactive and sustained communication with investors. A number of investor relations activities were held to effectively enhance corporate transparency. We were invited to participate in major investment conferences held by research houses in London, Shanghai, Beijing, Shenzhen, Macau and Hong Kong during the year to meet with existing shareholders and members of the investment community. Investors would have better understanding of the Company's business strategy and also the growth potential of our three core businesses. In November, we organized a non-deal road show in London, Paris, Frankfurt and Edinburgh. Other channels of communication with investors include visits to the Company, visits to investment projects, conference calls, etc.

In response to SI Environment's acquisition of an equity interest in Nanfang Water as announced in early June, the Company, in addition to issuing press releases, arranged for press briefing sessions on environmental business opportunities in water, held by the management of our infrastructure facilities business to provide specific details of the acquisition and describe future objectives and strategies of the Company's water services business so as to promote a better understanding of our infrastructure facilities business.

CONSTITUTIONAL DOCUMENTS

There were no significant changes in the Company's constitutional documents during the year.

COMPANY SECRETARY

The Company Secretary is mainly responsible for sound information communication among the members of the Board and the compliance of the policy and procedures of the Board and all applicable rules and regulations. The Company Secretary maintains a close relationship with each Director and the management and provides assistance and advice to the members of the Board when necessary. Also, the Company Secretary is responsible for providing opinion to the Chairman, Chief Executive Officer, other members of the Board and the management in respect of corporate governance from time to time and provides induction materials and arranges continuous professional development programmes for the Directors. The selection, appointment and dismissal of the Company Secretary shall be approved by the Board. Brief biographical details of the Company Secretary are set out on page 51 of this Annual Report and the Company's website.

HUMAN RESOURCES

Remuneration and Benefits Policies

Through its performance appraisal mechanism, the Company carries out annual reviews in accordance with its business performance, individual staff performance and industry average, in order to provide a reasonable and competitive compensation package for its employees.

Staff (including Directors) salaries, allowances and bonuses totaled HK$686 million for the year (2011: HK$753 million). Details of Directors' remuneration paid for the year ended 31 December 2012 are set out in note 14 to the financial statements. The remuneration payable to senior management of the Company by band for the year ended 31 December 2012 was as follows:

Remuneration by band (HK$)	2012 Number of individuals
0 - 1,000,000	3
1,000,001 - 2,000,000	3
	6

Note: In the remuneration band above, two members of the senior management resigned in April and September 2012 respectively, and another member of the senior management had a term of office from April 2012 to December 2012.

In order to ensure effective recruitment and successful retention of talents, the Company offers, in addition to salaries, allowances and bonuses, a compensation package to its staff that includes cash allowances as well as medical and personal accident insurance. The Company operates a defined contribution pension scheme for its qualified employees. Furthermore, in compliance with the Mandatory Provident Fund Schemes Ordinance, all employees are required to participate in the mandatory provident fund scheme. The assets of the two schemes are administered separately by independent custodian(s) in accordance with relevant laws and regulations.

Share Options

The Company adopted the SIHL New Scheme and terminated the SIHL Scheme at the extraordinary general meeting held on 25 May 2012. Up to 31 December 2012, a total of 89,894,000 share options have been granted by the Company pursuant to the SIHL Scheme, of which 46,786,200 share options remained outstanding and unexercised. On 16 May 2012, a total of 1,144,000 share options at an exercise price of HK$23.69 per share were granted. Apart from that, during the year, no share option has been granted by the Company pursuant to the SIHL New Scheme and the SIHL Scheme.

SI Urban Development, a subsidiary of the Company, adopted the SI Urban Development Scheme on 12 December 2002 and refreshed the scheme mandate limit in 2010 and granted a total of 111,500,000 share options on 24 September 2010 at an exercise price of HK$2.98 per share. As at 31 December 2012, 60,750,000 share options remained outstanding and unexercised.

SI Environment, a subsidiary of the Company, adopted the SI Environment New Scheme and terminated the SI Environment Scheme at the extraordinary general meeting held on 27 April 2012. Pursuant to the SI Environment Scheme, SI Environment granted a total of 29,830,505 share options (with adjustments made upon completion of a rights issues) at an exercise price of S$0.09 per share (with adjustments made upon completion of a rights issues). Up to 31 December 2012, the remaining outstanding 16,276,025 share options were lapsed. During the year, no share option has been granted by SI Environment pursuant to the SI Environment New Scheme and the SI Environment Scheme.

Details of the SIHL Scheme, SIHL New Scheme, SI Urban Development Scheme, SI Environment Scheme and SI Environment New Scheme are set out in note 42 to the financial statements.

Human Resources

The Group has an outstanding team of employees who have complied with various working rules, codes of practice as well as principles and moral standards established by the Company. The continued and due diligence efforts of the employees taking up respective responsibilities are the key driving forces behind the sustainable growth of the Group. With a strong commitment to staff relationship and training, a number of staff activities were held to enhance mutual trust and communication while promoting the exchange of knowledge among themselves. Meanwhile, we encourage our employees to continue their education, adding value both for themselves and for the Company.

For the year ended 31 December 2012, the Company has completed the acquisition of an equity stake in Nanfang Water. Accordingly, the number of employees of the Group has increased from 10,760 at the end of last year to 10,971 as at the end of this year, representing an increase of 1.96% over last year. Of all the employees, about 94.23% (2011: 94.08%) were stationed in mainland China and the remaining 5.77% (2011: 5.92%) were Hong Kong and overseas employees. The ratio of male to female staff was 63.3:37.7 (2011: 62.4:37.6). The distribution of employees according to business segment was as follows:

	Percentage
Infrastructure Facilities	25%
Real Estate	52.82%
Consumer Products	22.18%

CORPORATE SOCIAL RESPONSIBILITIES

Environmental Protection

Over the years, the Company and related subsidiaries have all complied with respective environmental protection laws and regulations, and have passed all respective environmental audits. The launch of electronic office platforms has been further extended across the Group to bring into reality a paperless and network operation. Apart from this, a number of the Group's subsidiary companies have allocated resources for the improvement of environmental protection facilities, recycling of waste and ensure the quality of afforestation. During the year, Wing Fat Printing continued its operation as a Low Carbon Office; Dongguan Wingfat Printing obtained the ISO14001 and OHSAS18001 accreditation and was awarded the Green Printing Media Popular Award and the Special Award by the China Academy of Printing Technology. Nanyang Tobacco established measures for green office to fulfill environmental protection requirements. Wuhan Kaidi Water Services reduced emissions of pollutants and energy during water treatment processes to achieve recycling of natural resources. Huangshi Kaidi Water Services actively participated in projects such as green factory zones, zones of hygiene responsibility, lighting, etc. SI Development organized a collective tree-planting activity under the theme of Plantation Forestry to build a Natural Ecological Jinshan to make a green environment. Shanghai Shenda Property established an environmental center to carry out plantation, waste separation, energy conservation and transformation and noise control. The SUD Green Carbon Fund aims to promote the upgrade of low carbon industry by nurturing a low-carbon corporate culture.

Social Welfare

The Group plays an active part in charity and welfare activities for the well-being of the society. During the new year and lunar new year holidays, a number of member companies of the Group have organized its staff to take part in social and charitable activities. Wing Fat Printing actively participated in activities that manifested care from the business community. A number of volunteer teams have been formed by employees of Shanghai Urban Development and its subsidiaries who paid regular visits to elderly and child welfare homes. They have also made donations for reconstruction of primary schools and building of painting studios and provided assistance to the poor and sponsored children for their study, fulfilling their corporate social responsibility. Wanyuan Real Estate contributed to the cause of education by organizing book and fund raising activities and jointly organized large-scale charity events with government departments. SI Development also actively took part in donation, scholarship and poverty alleviation. Dali SI Development has organized activities that encourage charitable donations to help the poor and vulnerable community.

By Order of the Board
Yee Foo Hei
Company Secretary

26 March 2013

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Back Row: Qian Yi, Xu Bo, Lu Shen, Zhou Jun, Ni Jian Da, Li Han Sheng
Front Row: Leung Pak To, Francis, Lo Ka Shui, Teng Yi Long, Zhou Jie, Woo Chia-Wei, Cheng Hoi Chuen, Vincent

DIRECTORS

Executive Directors

Mr. TENG Yi Long ***Executive Director, Chairman***
(Appointed on 30 May 2008 ~ Present)

Mr. Teng, aged 65, is the chairman of Shanghai Industrial Investment (Holdings) Company Limited. He graduated from Shanghai Jiaotong University majoring in industrial engineering management and East China University of Politics and Law majoring in civil and commercial law. He held top management position in Sichuan Diesel Engine Factory and was the Deputy Director of Sichuan Sixth Machinery Industrial Bureau under the Sixth Machinery Industrial Ministry. Also he held top management position in Shanghai Jiangnan Shipyard and was the chairman of Shanghai Municipal Federation of Trade Unions, a vice chairman of All China Federation of Trade Unions and the President of the Shanghai High People's Court. He has over 20 years of experience in the management of large enterprises and has over 10 years of judicial experience. He has extensive experience in economics, legal matters, enterprise management and shipbuilding, and in organizing and implementing key technological R&D projects. Mr. Teng is currently a member of the Consultative Committee of the Supreme People's Court of the PRC, an adjunct professor of East China University of Political Science and Law and Shanghai University of Engineering Science, an honorary researcher of Shanghai Academy of Social Sciences, the vice chairman of Commercial Aircraft Corporation of China, Ltd. and an honorary president of The Hong Kong Chinese Enterprises Association. Mr. Teng was a member of the National Committee of the Chinese People's Political Consultative Conference.

Mr. ZHOU Jie ***Executive Director, Vice Chairman, Chief Executive Officer***
(Appointed on 5 January 2002 ~ 18 January 2004
Re-appointed on 19 November 2007 ~ Present)

Mr. Zhou, aged 45, is an executive director and the president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") and a director of The Wing Fat Printing Company, Limited and certain other subsidiaries of the Group. Mr. Zhou graduated from Shanghai Jiaotong University with a master's degree in management science and engineering. He is an executive director and the chairman of Shanghai Pharmaceuticals Holding Co., Ltd. and a non-executive director of Semiconductor Manufacturing International Corporation. He was the deputy general manager of the investment banking head office of Shanghai Wanquo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.). He joined SIIC in May 1996 and had held the positions of the chairman and general manager of Shanghai S.I. Capital Co., Ltd. He has nearly 20 years' experience in corporate management, investment banking and capital market operation.

Mr. LU Shen ***Executive Director, Executive Deputy CEO***
(Appointed on 19 January 2004 ~ 19 December 2005
Re-appointed on 25 April 2012 ~ Present)

Mr. Lu, aged 56, is an executive director and the executive vice president of Shanghai Industrial Investment (Holdings) Company Limited, the chairman of Shanghai Industrial Development Co., Ltd. ("SI Development") and a director of certain other subsidiaries of the Group. He is also a non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. Mr. Lu joined the Group as an executive director of SIIC Medical Science and Technology (Group) Limited in September 2003. He graduated from Shanghai Technology University with a bachelor's degree in wireless engineering and obtained a master's degree in business administration from Shanghai Jiaotong University, and is designated a senior economist. Mr. Lu was the chairman of Shanghai City Hotel, a director and deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., a director and general manager of Shanghai Industrial United Holdings Co., Ltd., the chairman of Shanghai Far East International Bridge Construction Co., Ltd. and the president of SI Development. He has extensive working experience in corporate management.

Mr. ZHOU Jun ***Executive Director, Deputy CEO***
(Appointed on 15 April 2009 ~ Present)

Mr. Zhou, aged 44, is an executive director and a vice president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is the executive chairman of SIIC Environment Holdings Ltd., the chairman of SIIC Management (Shanghai) Ltd., Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Luqiao Development Co., Ltd., Shanghai Shen-Yu Development Co., Ltd., United Environment Co., Ltd., Nanfang Water Co., Ltd. and General Water of China Co., Ltd., an executive director of Shanghai Industrial Urban Development Group Limited and a director of Shanghai Urban Development (Holdings) Co., Ltd. and certain other subsidiaries of the Group. Mr. Zhou is also an independent non-executive director of Zhejiang Expressway Co., Ltd. He graduated from Nanjing University and Fudan University with a bachelor's and a master's degree in economics (international finance), and is designated an economist. He was appointed as a Deputy CEO of the Company in December 2005 and is currently the chairman of Shanghai Galaxy Investment Co., Ltd. ("Shanghai Galaxy"). He worked for Guotai Securities Co., Ltd. (now Guotai Junan Securities Co.) before joining SIIC in April 1996. The management positions he had held within the SIIC group of companies were deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., deputy general manager of Shanghai United Industrial Co., Ltd., director and general manager of Shanghai Galaxy and general manager of the strategic investment department of SIIC. Mr. Zhou has more than 10 years' professional experience in securities, mergers and acquisitions, finance, real estate, project planning and corporate management.

Mr. XU Bo ***Executive Director, Deputy CEO***
(Appointed on 28 December 2012 ~ Present)

Mr. Xu, aged 50, is a vice president, the chief financial controller and the general manager of the finance and planning department of Shanghai Industrial Investment (Holdings) Company Limited, a director of Nanyang Brothers Tobacco Company, Limited, and certain other subsidiaries of the Group. He holds a bachelor's degree and a master's degree in business administration and is designated a deputy professor. Mr. Xu was an executive deputy officer of the accounting department of Shanghai Lixin University of Commerce, a deputy general manager and chief financial officer of Shanghai Hualian Co., Ltd., an executive director, deputy general manager and chief financial officer of Shanghai Bailian Group Co., Ltd., a vice president of Bailian Group Co., Ltd. and a non-executive director of Lianhua Supermarket Holdings Co., Ltd. He has over 20 years' experience in accounting and corporate management.

Mr. QIAN Yi ***Executive Director, Deputy CEO***
(Appointed on 11 November 2009 ~ Present)

Mr. Qian, aged 59, is a director of Shanghai Industrial Investment (Holdings) Company Limited, the chairman and general manager of Nanyang Brothers Tobacco Company, Limited, the chairman of The Wing Fat Printing Company, Limited and a director of certain other subsidiaries of the Group. He graduated from Fudan University with a bachelor's degree in enterprise management and obtained a master's degree in business administration from East China Normal University. He holds the designation of senior economist. Mr. Qian was appointed a Deputy CEO of the Company in July 2009. He served as the vice chairman and executive president of Shanghai Sunway Biotech Co., Ltd., deputy head of Shanghai Boiler Works Ltd., deputy chief economist of Shanghai Electric (Group) Corp. and the head of Shanghai Heavy Machinery Plant. He has extensive experience in enterprise management.

Independent Non-Executive Directors

Dr. LO Ka Shui ***Independent Non-Executive Director***
(Appointed on 15 March 1996 ~ Present)

Dr. Lo, aged 66, is the Chairman and Managing Director of Great Eagle Holdings Limited and the Chairman and Non-executive Director of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion Real Estate Investment Trust). He is an Independent Non-executive Director of Phoenix Satellite Television Holdings Limited, China Mobile Limited and City e-Solutions Limited. He is also a Vice President of The Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, the Chairman of The Chamber of Hong Kong Listed Companies and a member of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority. He graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in Internal Medicine and Cardiology. He has more than 30 years' experience in property and hotel development and investment both in Hong Kong and overseas.

Prof. WOO Chia-Wei ***Independent Non-Executive Director***
(Appointed on 15 March 1996 ~ Present)

Prof. Woo, aged 75, is currently Senior Advisor of Shui On Holdings Limited and President Emeritus of the Hong Kong University of Science and Technology. In addition, Prof. Woo is an independent non-executive director of First Shanghai Investments Limited, a Hong Kong listed company.

Mr. LEUNG Pak To, Francis ***Independent Non-Executive Director***
(Appointed on 15 March 1996 ~ Present)

Mr. Leung, aged 58, has over 30 years of experience in corporate finance involving in capital raisings, mergers and acquisitions, corporate restructuring and reorganisation, investments and other general corporate finance advisory activities in Hong Kong and China. He is the chairman and non-executive director of Imagi International Holdings Limited, a non-executive director of Sun Hung Kai & Co. Limited and a member of the 12th National Committee of the Chinese People's Political Consultative Conference. In 1980, he graduated with a master's degree in business administration from University of Toronto, Canada.

Mr. CHENG Hoi Chuen, Vincent ***Independent Non-Executive Director***
(Appointed on 13 November 2012 ~ Present)

Mr. Cheng, aged 64, is the adviser to the group chief executive of HSBC Holdings plc and is also an independent non-executive director of Great Eagle Holdings Limited, MTR Corporation Limited, Hui Xian Asset Management Limited (manager of the publicly listed Hui Xian Real Estate Investment Trust), CLP Holdings Limited, China Minsheng Banking Corp., Ltd. and Wing Tai Properties Limited. He is the former chairman of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited. Mr. Cheng is the chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR and a member of the Advisory Committee on Post-service Employment of Civil Servants, a vice patron of Community Chest of Hong Kong and the chairman of the Council of The Chinese University of Hong Kong. He is also a senior adviser to the Beijing Municipal Committee of the National Committee of the Chinese People's Political Consultative Conference ("CPPCC") and was a member of the National Committee of CPPCC. He was conferred the doctoral degree of social science, *honoris causa*, by The Chinese University of Hong Kong and the doctoral degree of business administration, *honoris causa* by The Open University. Mr. Cheng also holds a bachelor of social science degree in economics from The Chinese University of Hong Kong and a master of philosophy degree in economics from The University of Auckland, New Zealand.

SENIOR MANAGEMENT

Mr. NI Jian Da
Mr. Ni, aged 50, was appointed a Deputy CEO of the Company in March 2008. He is also a director of Shanghai Industrial Investment (Holdings) Company Limited, the chairman of Shanghai Industrial Urban Development Group Limited, the chairman and president of Shanghai Urban Development (Holdings) Co., Ltd. ("Shanghai Urban Development") and a director of certain other subsidiaries of the Group. He graduated from Shanghai University and La Trobe University of Australia with a master's degree in business administration. Mr. Ni was the general manager of Shanghai Xuhui Real Estate Management Co., Ltd., a deputy general manager of Shanghai Urban Development and the general manager of the real estate department of China Huayuan Group Ltd., and has more than 20 years' professional experience in real estate, economics and management. Mr. Ni was elected member of the Shanghai Municipal People's Congress in 2003, and received the honors as one of the 25 Chinese Entrepreneurs with Most Reforming Ideas, among the Top Ten Persons of the Year Elected by the 2006 China International Real Estate and Archi-tech Fair, one of the 2007 Boao Forum Most Influential Persons in China's Real Estate Industry in 20 Years and one of the Top Ten Entrepreneurs in the Shanghai Real Estate Sector in 18 Years in 2005. He was a vice chairman of Shanghai Youth Federation and is currently the chairman of Shanghai Young Entrepreneurs Association and Shanghai Real Estate Association.

Mr. LI Han Sheng

Mr. Li, aged 49, was appointed a Deputy CEO of the Company in April 2012. He is also a general manager of human resources department of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He graduated from East China University of Science and Technology, Shanghai Technology University and Murdoch University with a bachelor's degree of science in engineering, a master's degree in computer science and a master's degree in business administration, and is designated a senior engineer. He was an officer of the information centre of Shanghai Wugang Holdings Ltd. engaged in enterprise management and information technology. He joined SIIC in September 1999, and was the assistant general manager of operations management and cooperation department, deputy general manager of the administration department and secretary to chairman. He was also the head of the information technology department of the Company. He has more than 20 years' experience of corporate management and information technology.

Mr. YANG Jian Wei

Mr. Yang, aged 41, was appointed an Assistant CEO of the Company in October 2009. He is also an executive director of Shanghai Industrial Urban Development Group Limited, a director of Shanghai Industrial Development Co., Ltd. and Nanyang Brothers Tobacco Company, Limited. He graduated from Huazhong University of Science and Technology and Shanghai Jiaotong University with a bachelor's degree in engineering, a master's degree in management engineering and a doctoral degree in management. He worked for China National Nonferrous Materials Co., Ltd. and Hong Yuan Securities Co., Ltd. Mr. Yang joined Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") in June 2004, and was assistant general manager of Shanghai Galaxy Investment Co., Ltd., assistant general manager of the board of directors' office and secretary to chairman of SIIC. He has more than 10 years' experience of financial investment, security research, investment banking and project planning.

PROFESSIONAL STAFF

Mr. YEE Foo Hei

Mr. Yee, aged 49, joined the Company in September 2010. He is the Company Secretary of the Company. He graduated from City Polytechnic of Hong Kong (now City University of Hong Kong) and University of Wolverhampton, UK with a professional diploma in company secretaryship and administration and a LLB degree respectively. Mr. Yee is a fellow member of The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries & Administrators and the Association of Chartered Certified Accountants. Mr. Yee has more than 20 years' practical company secretarial experience in international accountancy firm, multi-national conglomerate and large-scale PRC stated-owned enterprise.

Mr. LEUNG Lin Cheong, Roger

Mr. Leung, aged 59, joined the Company in March 1996. He is the Chief Legal and Compliance Officer of the Company and is also the general manager of the legal and compliance department of Shanghai Industrial Investment (Holdings) Company Limited. He is a Fellow of The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries, The Chartered Institute of Management Accountants and the Hong Kong Institute of Certified Public Accountants and a professional member of the Hong Kong Institute of Human Resource Management. He also holds a master's degree in laws from University of London and a master's degree in business administration from Brunel University in U.K. in conjunction with Henley Management College. Prior to joining the Company, he was an executive director and group company secretary of a group of Hong Kong listed companies. He has many years of management experience in legal affairs and compliance, listed corporate secretarial practice and administration.

Ms. CHAN Yat Ying, Cherie

Ms. Chan, aged 45, joined the Company in November 1996. She is the Chief Financial Officer of the Company and a deputy general manager of the finance and planning department of Shanghai Industrial Investment (Holdings) Company Limited. Ms. Chan is also a member of the supervisory committee of Shanghai Industrial Development Co., Ltd. She graduated from University of Hong Kong with a bachelor's degree in social sciences. She also holds a master's degree in financial management awarded by the University of London. Ms. Chan is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Chinese Institute of Certified Public Accountants. She has extensive working experience in banking and accounting professions.

SENIOR MANAGEMENT OF MEMBER COMPANIES

Mr. JI Gang

Mr. Ji, aged 55, is the vice chairman and president of Shanghai Industrial Urban Development Group Limited and a director of Shanghai Industrial Development Co., Ltd. ("SI Development") and certain other subsidiaries of the Group. He is also a director of Shanghai Industrial Investment (Holdings) Company Limited. He graduated from Fudan University with a master's degree in economics and is designated a senior economist. Mr. Ji was the vice chairman and president of SI Development, the general manager of Zhongya Hotel, the chairman and general manager of Shanghai Everbright City Services Co., Ltd., an officer of the Commercial Committee and Economic Committee of the Municipal People's Government of Zhabei District, Shanghai, a vice president of SIIC Dongtan Investment & Development (Holdings) Co., Ltd., the president of Shanghai SIIC Urban Development Investment Co., Ltd. and an executive director and the president of SIIC Investment Co., Ltd. etc. He has over 35 years' experience in corporate management.

Mr. TANG Jun

Mr. Tang, aged 45, is a director and president of Shanghai Industrial Development Co., Ltd. and certain other subsidiaries of the Group. He graduated from University of South Australia with a master's degree in business administration and holds the designation of senior auditor, and is an associate of the Chinese Institute of Certified Public Accountants. Mr. Tang was an Executive Director of the Company, the general manager of the internal audit department and deputy general manager of the finance and planning department of Shanghai Industrial Investment (Holdings) Company Limited, an officer of Shanghai Municipal Audit Office and the Deputy Director of the Foreign Funds Utilization Audit Department, Shanghai Municipal Audit Office, and has over ten years' practical experience in the fields of auditing and finance.

Mr. XU Xiao Bing

Mr. Xu, aged 46, is a director and the general manager of SIIC Management (Shanghai) Ltd. ("SIIC Management"), a director of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Luqiao Development Co., Ltd., Shanghai Shen-Yu Development Co., Ltd., United Environment Co., Ltd., Shanghai SIIC South Pacific Hotel Co., Ltd. and the chief representative of Shanghai Representative Office of the Company. Mr. Xu graduated from Peking University with a master's degree in business administration. He was an investment and financial analyst of Beijing Jingfang Investment Management & Consultant Co., Ltd. under the Beijing Capital Group, and the deputy head of the investment planning department, the head of the enterprise management department and the deputy general manager of SIIC Management. He has over 10 years' experience in corporate management and investment planning.

Mr. DAI Wei Wei

Mr. Dai, aged 44, is a director and the general manager of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Shen-Yu Development Co., Ltd. as well as a director of Shanghai Luqiao Development Co., Ltd. Mr. Dai graduated from Shanghai Tongji University and Fudan University and obtained a bachelor's degree in engineering and a master's degree in business administration respectively. He worked in Shanghai Mass Transit Railway Corporation, Shanghai Municipal Engineering Administration, Shanghai Jiajin Highway Development Co., Ltd. and SIIC Management (Shanghai) Ltd. He has over 10 years' experience in construction and management of infrastructure.

Ms. ZHOU Ya Dong

Ms. Zhou, aged 41, is a director and the general manager of Shanghai Luqiao Development Co., Ltd., a director of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. ("HuNing Expressway") and Shanghai Shen-Yu Development Co., Ltd. Ms. Zhou graduated from East China Normal University majored in international finance, and obtained a master's degree in professional accountancy from The Chinese University of Hong Kong. Ms. Zhou is a non-practicing member of the Chinese Institute of Certified Public Accountants. She was the deputy head of the investment department of SIIC Management (Shanghai) Ltd., a director of Zhejiang Jinhua Yongjin Expressway Co., Ltd. and a director and the deputy general manager of Hu-Ning Expressway. She has many years' experience in investment planning and expressway management.

Mr. FENG Jun

Mr. Feng, aged 49, is an executive director of SIIC Environment Holdings Ltd. and a deputy general manager of SIIC Management (Shanghai) Ltd. He graduated from the Economics and Management School of Wuhan University and obtained a master's degree in economics. Mr. Fung was a deputy manager of the trust department of Shanghai International Trust Co., a director and vice president of SIIC Investment Company Limited and a director and deputy general manager of The Tien Chu (Hong Kong) Company Limited. He has over 24 years' experience in capital markets operation.

Ms. LIU Yu Jie

Ms. Liu, aged 49, is an executive director of SIIC Environment Holdings Ltd. ("SI Environment"). Prior to joining SI Environment, she was the general manager of the capital operation department of General Water of China Co., Ltd. and the general manager of Yuanshui Technology (Beijing) Ltd. She graduated from University of International Business and Economics in Beijing and obtained a master's degree in business administration. Ms. Liu has been working in Hong Kong, Singapore and the PRC for over 20 years in total and is familiar with the business environment and regulatory system of the three places. She has comprehensive experience in capital market, business promotion and corporate management: participated in IPO and underwriting of over 30 companies on the Hong Kong stock exchange; led and completed merger and acquisition of three companies in Hong Kong and Singapore; assisted capital raising and management of large-scale industrial fund for investment in China; acted as executive directors of listed companies in Hong Kong and Singapore which engage in utilities and infrastructure investment. She is a board member of six environmental and resources companies.

Mr. YANG Zhang Min

Mr. Yang, aged 50, is an executive director of SIIC Environment Holdings Ltd. and a director and general manager of United Environment Co., Ltd. Mr. Yang graduated from Tongji University with a bachelor's degree in environmental engineering and the School of Economics and Management of Tsinghua University with a master's degree in EMBA. He was the general manager of Shenzhen Longgang Baolong Industrial Co. and the chairman and general manager of Shenzhen Longgang Guotong Industrial Co., Ltd. He was the founder of United Environment Co. in the year 2003 and had been the chairman and general manager for years. He has over 20 years' experience in operation and management of water and environmental protection investment as well as project and administrative management.

Mr. YANG Yun Zhong

Mr. Yang, aged 58, is a director and the general manager of Shanghai Feng Mao Properties Ltd., Shanghai Feng Qi Properties Ltd., Shanghai Feng Ze Properties Ltd. and Shanghai SIIC Hu Bin New City Development Ltd. and a director of certain other subsidiaries of the Group. Mr. Yang graduated from Macau University of Science and Technology with a master's degree, and is designated an senior economist. He had held the positions of the Deputy Director and the Director of the Shanghai Administration of Grain (Huang Pu District), officer of Huang Pu Housing Construction Office, the chairman of Shanghai Jin Wai Tan Group, the chairman of SIIC Real Estate Holdings (Shanghai) Co., Ltd., a director and vice president of SIIC Shanghai Holdings Co., Ltd. and Shanghai Industrial Development Co., Ltd. He has many years of experience in enterprise management.

Mr. JIN Guo Ming

Mr. Jin, aged 52, is a director and the general manager of The Wing Fat Printing Company, Limited. He is the chairman of Wingfat (Sichuan) Printing Co., Ltd. and Zhejiang Rongfeng Paper Co., Ltd. He graduated from Zhejiang Institute of Metallurgy Economics and obtained a master's degree in business management from South Australia University. He holds the designation of international business engineer. Mr. Jin has over 30 years of experience in the printing and packaging industry.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the business of infrastructure facilities, real estate and consumer products.

PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Details of the principal subsidiaries, jointly controlled entities and associates as at 31 December 2012 are set out in notes 54, 55 and 56 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 67 of this Annual Report.

An interim dividend of HK50 cents per share amounting to HK$539,984,000 was paid to the shareholders during the year. The Directors recommend the payment of a final dividend of HK58 cents per share to the shareholders whose names appear on the register of members of the Company on 27 May 2013.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the year ended 31 December 2012 and the previous four years is set out on page 192 of this Annual Report.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 41 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and in note 43 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

As at 31 December 2012, the investment properties of the Group were revalued by independent property valuers with reference to market evidence of transaction prices of similar properties in similar locations and conditions, or on the basis of net rental income capitalisation where appropriate, at approximately HK$9,471 million. Details are set out in note 17 to the consolidated financial statements.

Particulars of the Group's major properties held for investment purposes as at 31 December 2012 are set out on pages 193 and 194 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 18 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Teng Yi Long	*(Chairman)*	
Zhou Jie	*(Vice Chairman & Chief Executive Officer)*	
Lu Shen	*(Executive Deputy CEO)*	(appointed on 25 April 2012)
Zhou Jun	*(Deputy CEO)*	
Xu Bo	*(Deputy CEO)*	(appointed on 28 December 2012)
Qian Yi	*(Deputy CEO)*	
Cai Yu Tian		(resigned on 25 April 2012)
Qian Shi Zheng		(resigned on 25 April 2012)
Lu Ming Fang		(resigned on 28 December 2012)

Independent Non-Executive Directors

Lo Ka Shui	
Woo Chia-Wei	
Leung Pak To, Francis	
Cheng Hoi Chuen, Vincent	(appointed on 13 November 2012)

The biographical details of the Directors are set out on pages 47 to 50 of this Annual Report. Details of Directors' emoluments are set out in note 14 to the consolidated financial statements.

In accordance with the Company's articles of association, the Directors of the Company (including the Independent Non-Executive Directors) shall be subject to retirement by rotation at each annual general meeting. Mr. Qian Yi, Dr. Lo Ka Shui and Prof. Woo Chia-Wei shall retire by rotation at the forthcoming annual general meeting. All of them, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's articles of association, Mr. Xu Bo and Mr. Cheng Hoi Chuen, Vincent who were newly appointed as Directors of the Company during the current year shall retire at the forthcoming annual general meeting. Both of them, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DISCLOSURE UNDER RULE 13.51B(1) OF THE LISTING RULES

Changes in Directors' information since the date of the interim report 2012 up to the date of this report are set out below:

Mr. Teng Yi Long

- no longer acted as a member of the National Committee of the Chinese People's Political Consultative Conference effective in March 2013.

Mr. Zhou Jun
- no longer acted as a member of the Shanghai Municipal People's Congress effective in January 2013.

Dr. Lo Ka Shui
- resigned as an independent non-executive director of Winsor Properties Holdings Limited (now renamed as Vanke Property (Overseas) Limited) on 1 September 2012.

Prof. Woo Chia-Wei
- resigned as an independent non-executive director of Trony Solar Holdings Company Limited on 8 February 2013.

Mr. Leung Pak To, Francis
- appointed as a member of the 12th National Committee of the Chinese People's Political Consultative Conference on 1 February 2013.

Mr. Cheng Hoi Chuen, Vincent
- appointed as an independent non-executive director of Wing Tai Properties Limited on 1 February 2013.
- no longer acted as a member of the National Committee of the Chinese People's Political Consultative Conference effective in March 2013.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(I) Interests in shares and underlying shares of the Company

Name of Director	Capacity	Nature of interests	Number of issued ordinary shares held	Number of outstanding share options (Note 2)	Total	Approximate percentage of the issued share capital
Teng Yi Long	Beneficial owner	Personal	–	2,160,000	2,160,000	0.20%
Zhou Jie	Beneficial owner	Personal	333,000	1,530,000	1,863,000	0.17%
Lu Shen	Beneficial owner	Personal	–	1,350,000	1,350,000	0.12%
Zhou Jun	Beneficial owner	Personal	195,000	1,350,000	1,545,000	0.14%
Xu Bo	Beneficial owner	Personal	–	600,000	600,000	0.06%
Qian Yi	Beneficial owner	Personal	–	1,350,000	1,350,000	0.12%
Lo Ka Shui	Beneficial owner	Personal	766,560	216,000	982,560	0.09%
Woo Chia-Wei	Beneficial owner	Personal	–	216,000	216,000	0.02%
Leung Pak To, Francis	Beneficial owner	Personal	–	216,000	216,000	0.02%

Notes:
1. All interests stated above represent long positions.
2. Such long position represents underlying shares derived from unlisted and physically-settled derivatives.

(II) Interests in shares and underlying shares of association corporations

SI Urban Development

Name of Director	Capacity	Nature of interests	Number of outstanding share options (Note 2)	Approximate percentage of the issued share capital
Zhou Jun	Beneficial owner	Personal	7,000,000	0.15%

Notes:
1. All interests stated above represent long positions.
2. Such long position represents underlying shares derived from unlisted and physically-settled derivatives.

Shanghai Pharmaceuticals

Name of Director	Class of shares	Capacity	Nature of interests	Number of outstanding shares held	Approximate percentage of respective class of issued share capital
Lu Shen	A share	Beneficial owner	Personal	6,440	0.0003%
Lo Ka Shui	H share	Founder of a discretionary trust	Other	4,000,000	0.52%

Note: All interests stated above represent long positions.

Save as disclosed above, none of the Directors nor chief executives of the Company had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2012.

SHARE OPTIONS

Particulars of the share option schemes adopted by the Group are set out in note 42 to the consolidated financial statements.

(I) SIHL Scheme

The SIHL Scheme was valid and effective for a period of 10 years commencing the date of its adoption and was terminated on 25 May 2012 as approved by the shareholders of the Company. During the year, the movements in the share options to subscribe for the Company's shares under the SIHL Scheme were as follows:

			Number of shares issuable under the share options granted					
	Date of grant	Exercise price per share HK$	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled during the year	Outstanding at 31.12.2012
Category 1: Directors								
Teng Yi Long	2.11.2010	36.60	1,200,000	–	–	–	–	1,200,000
	20.9.2011	22.71	960,000	–	–	–	–	960,000
Zhou Jie	2.11.2010	36.60	850,000	–	–	–	–	850,000
	20.9.2011	22.71	680,000	–	–	–	–	680,000
Lu Shen [1]	2.11.2010	36.60	–	–	–	750,000	–	750,000
	20.9.2011	22.71	–	–	–	600,000	–	600,000
Zhou Jun	2.11.2010	36.60	750,000	–	–	–	–	750,000
	20.9.2011	22.71	600,000	–	–	–	–	600,000
Xu Bo [2]	16.5.2012	23.69	–	–	–	600,000	–	600,000
Qian Yi	2.11.2010	36.60	750,000	–	–	–	–	750,000
	20.9.2011	22.71	600,000	–	–	–	–	600,000
Lo Ka Shui	2.11.2010	36.60	120,000	–	–	–	–	120,000
	20.9.2011	22.71	96,000	–	–	–	–	96,000
Woo Chia-Wei	2.11.2010	36.60	120,000	–	–	–	–	120,000
	20.9.2011	22.71	96,000	–	–	–	–	96,000
Leung Pak To, Francis	2.11.2010	36.60	120,000	–	–	–	–	120,000
	20.9.2011	22.71	96,000	–	–	–	–	96,000
Cai Yu Tian [3]	2.11.2010	36.60	1,000,000	–	–	(1,000,000)	–	–
	20.9.2011	22.71	800,000	–	–	(800,000)	–	–
Qian Shi Zheng [4]	2.11.2010	36.60	750,000	–	–	(750,000)	–	–
	20.9.2011	22.71	600,000	–	–	(600,000)	–	–
Lu Ming Fang [5]	2.11.2010	36.60	750,000	–	–	(750,000)	–	–
	20.9.2011	22.71	600,000	–	–	(600,000)	–	–
Total			11,538,000	–	–	(2,550,000)	–	8,988,000
Category 2: Employees								
	2.11.2010	36.60	12,690,000	–	–	(2,300,000)	–	10,390,000
	20.9.2011	22.71	12,600,000	–	(193,000)	(1,840,000)	(48,000)	10,519,000
	16.5.2012	23.69	–	1,144,000	–	(600,000)	–	544,000
Total			25,290,000	1,144,000	(193,000)	(4,740,000)	(48,000)	21,453,000
Category 3: Others								
	2.11.2010	36.60	6,250,000	–	–	4,050,000	(80,000)	10,220,000
	20.9.2011	22.71	2,872,000	–	(271,000)	3,240,000	(44,800)	5,796,200
Total			9,122,000	–	(271,000)	7,290,000	(124,800)	16,016,200
Total for all categories			45,950,000	1,144,000	(464,000)	–	(172,800)	46,457,200

Notes:
1. Mr. Lu Shen was appointed as a Director of the Company on 25 April 2012.
2. Mr. Xu Bo was appointed as a Director of the Company on 28 December 2012.
3. Mr. Cai Yu Tian resigned as a Director of the Company on 25 April 2012.
4. Mr. Qian Shi Zheng resigned as a Director of the Company on 25 April 2012.
5. Mr. Lu Ming Fang resigned as a Director of the Company on 28 December 2012.

Share options granted in November 2010 are exercisable during the period from 3 November 2010 to 2 November 2015 in three batches, being:

- 3 November 2010 to 2 November 2011 (up to 40% of the share options granted are exercisable)
- 3 November 2011 to 2 November 2012 (up to 70% of the share options granted are exercisable)
- 3 November 2012 to 2 November 2015 (all share options granted are exercisable)

Share options granted in September 2011 are exercisable during the period from 21 September 2011 to 20 September 2016 in three batches, being:

- 21 September 2011 to 20 September 2012 (up to 40% of the share options granted are exercisable)
- 21 September 2012 to 20 September 2013 (up to 70% of the share options granted are exercisable)
- 21 September 2013 to 20 September 2016 (all share options granted are exercisable)

Share options granted in May 2012 are exercisable during the period from 17 May 2012 to 16 May 2017 in three batches, being:

- 17 May 2012 to 16 May 2013 (up to 40% of the share options granted are exercisable)
- 17 May 2013 to 16 May 2014 (up to 70% of the share options granted are exercisable)
- 17 May 2014 to 16 May 2017 (all share options granted are exercisable)

During the year, the weighted average closing price of the Company's shares immediately before the respective dates on which the share options were exercised is HK$27.37.

(II) SIHL New Scheme

The SIHL New Scheme shall be valid and effective for a period of 10 years commencing the date of its adoption. During the year, no options were granted under the SIHL New Scheme.

(III) SI Urban Development Scheme

The SI Urban Development Scheme shall be valid and effective for a period of 10 years commencing the date of its adoption. During the year, the movements in the share options to subscribe for SI Urban Development's shares under the SI Urban Development Scheme were as follows:

			Number of shares issuable under the share options granted		
	Date of grant	Exercise price per share HK$	Outstanding at 1.1.2012	Cancelled during the year	Outstanding at 31.12.2012
Category 1: Directors of SI Urban Development, who are also Directors of the Company					
Zhou Jun	24.9.2010	2.98	7,000,000	–	7,000,000
Cai Yu Tian [1]	24.9.2010	2.98	9,000,000	(9,000,000)	–
Qian Shi Zheng [2]	24.9.2010	2.98	7,000,000	(7,000,000)	–
Total			23,000,000	(16,000,000)	7,000,000
Category 2: Other directors of SI Urban Development					
	24.9.2010	2.98	33,000,000	(7,000,000)	26,000,000
Category 3: Employees of SI Urban Development					
	24.9.2010	2.98	35,000,000	(7,250,000)	27,750,000
Total for all categories			91,000,000	(30,250,000)	60,750,000

Notes:
1. Mr. Cai Yu Tian resigned as a director of SI Urban Development on 24 April 2012.
2. Mr. Qian Shi Zheng resigned as a director of SI Urban Development on 27 April 2012.

Share options are exercisable during the period from 24 September 2010 to 23 September 2020 in three batches, being:

- 24 September 2010 to 23 September 2011 (up to 40% of the share options granted are exercisable)
- 24 September 2011 to 23 September 2012 (up to 70% of the share options granted are exercisable)
- 24 September 2012 to 23 September 2020 (all share options granted are exercisable)

(IV) SI Environment Scheme

The SI Environment Scheme was valid and effective for a period of 10 years commencing the date of its adoption and was terminated on 27 April 2012 as approved by the shareholders of SI Environment. During the year, the movements in the share options to subscribe for SI Environment's shares under the SI Environment Scheme were as follows:

	Date of grant	Exercise price per share S$	Number of shares issuable under the share options granted			
			Outstanding at 1.1.2012	Cancelled during the year	Expired during the year	Outstanding at 31.12.2011
Category 1: Directors of SI Environment						
	14.8.2007	0.09 (Note)	–	–	–	–
Category 2: Employees of SI Environment						
	14.8.2007	0.09 (Note)	17,037,467 (Note)	(761,442)	(16,276,025)	–
Total for all categories			17,037,467 (Note)	(761,442)	(16,276,025)	–

Note: Pursuant to the adjustments made in accordance with the terms of the SI Environment Scheme, the aggregate number of the outstanding options and the corresponding exercise price were adjusted in 2010.

Share options granted were exercisable from 14 August 2008 to 13 August 2012 and expired on 13 August 2012.

(V) SI Environment New Scheme

The SI Environment New Scheme shall be valid and effective for a period of 10 years commencing the date of its adoption. During the year, no options were granted under the SI Environment New Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES OF THE COMPANY

Save as disclosed under the section of Share Options above, at no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the interests and short positions of the substantial shareholders of the Company and other persons, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of shareholder	Capacity	Nature of interests	Name of issued ordinary shares beneficially held	Approximate percentage of the issued share capital
SIIC	Interests held by controlled corporations	Corporate	616,434,748 (Notes 1 & 2)	57.06%

Notes:

1. SIIC through its subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, SIIC Treasury (B.V.I.) Limited, Shanghai Industrial Financial (Holdings) Company Limited, SIIC Trading Company Limited, Billion More Investments Limited, South Pacific International Trading Limited, The Tien Chu Ve Tsin (Hong Kong) Company Limited and SIIC CM Development Limited held 500,573,748 shares, 80,000,000 shares, 17,646,000 shares, 13,685,000 shares, 2,351,000 shares, 1,219,000 shares, 650,000 shares, 300,000 shares and 10,000 shares of the Company respectively, and was accordingly deemed to be interested in the respective shares held by the aforementioned companies.
2. All interests stated above represent long positions.

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2012.

CONNECTED TRANSACTIONS

Details of the connected transactions and continuing connected transactions for the year are set out in note 51 to the consolidated financial statements. Save as disclosed therein, there were no other connected transactions and continuing connected transactions, other than those which are exempt from the reporting, announcement and independent shareholders' approval requirements, which need to be disclosed as connected transactions and continuing connected transactions in accordance with the requirements of Appendix 16 to the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the Directors engaged the auditor of the Company to perform certain works on continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provided a letter to the Directors of the Company and confirmed that, for the year ended 31 December 2012, the continuing connected transactions:

(i) had received the approval of the Directors of the Company;

(ii) involving the provision of services by the Group, if any, had been entered into in accordance with the pricing policies of the Company;

(iii) had been entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) had not exceeded the relevant cap amounts for the financial year ended 31 December 2012.

The Independent Non-Executive Directors have reviewed the continuing connected transactions set out in note 51(I) to the consolidated financial statements and in their opinion, those transactions were entered into by the Group:

(i) in the ordinary course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 51(II) to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total sales and purchases respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$2,606,000.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 50 to the consolidated financial statements.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event occurring after the reporting period are set out in note 60 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, based on publicly available information and within the knowledge of the Directors of the Company, 42.94% of the issued share capital of the Company is held by the public.

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

CORPORATE GOVERNANCE

The corporate governance principles and practices adopted by the Company are set out in the Corporate Governance Report on pages 33 to 46 of this Annual Report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Teng Yi Long
Chairman

Hong Kong, 26 March 2013

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SHANGHAI INDUSTRIAL HOLDINGS LIMITED
上海實業控股有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shanghai Industrial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 191, which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000 (restated)
Revenue	6	19,286,910	14,969,132
Cost of sales		(13,703,878)	(9,660,357)
Gross profit		5,583,032	5,308,775
Net investment income	7	608,352	448,652
Other income		1,368,962	1,035,509
Selling and distribution costs		(698,935)	(882,100)
Administrative and other expenses		(1,827,951)	(1,569,589)
Finance costs	8	(1,031,715)	(1,078,804)
Share of results of jointly controlled entities		27,520	19,960
Share of results of associates		13,512	36,587
Gain from bargain purchase of interests in subsidiaries	44(II)	–	73,671
Gain on disposal of Feng Shun	51(I)(j)	1,276,515	–
Gain on disposal of interests in subsidiaries holding property interests	45(II)(iii)	–	1,261,588
Gain on disposal of interests in other subsidiaries, jointly controlled entities and associates	9	668,876	1,773,231
Impairment loss on available-for-sale investments	10	(40,427)	(110,474)
Profit before taxation		5,947,741	6,317,006
Income tax expense	11	(1,621,251)	(2,179,787)
Profit for the year	13	4,326,490	4,137,219
Profit for the year attributable to			
– Owners of the Company		3,438,210	4,022,575
– Non-controlling interests		888,280	114,644
		4,326,490	4,137,219

		HK$	HK$ (restated)
Earnings per share	16		
– Basic		3.184	3.725
– Diluted		3.182	3.725

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000 (restated)
Profit for the year	4,326,490	4,137,219
Other comprehensive income		
Exchange differences arising on translation of foreign operations		
– subsidiaries	314,328	845,809
– jointly controlled entities	15,361	78,373
– associates	18,911	54,986
Fair value adjustment on available-for-sale investments		
– subsidiaries	14,550	(130,387)
– a jointly controlled entity	(36,673)	–
Impairment loss on available-for-sale investments	–	110,474
Fair value gain on hedging instruments in cash flow hedges	–	2,458
Reclassification of hedging reserve upon termination of hedging relationship	–	8,254
Reclassification of translation reserve upon disposals/ deemed partial disposal of		
– interests in subsidiaries/the disposal group held for sale	(8,963)	(348,023)
– interest in a jointly controlled entity	(446)	(22,855)
Other comprehensive income for the year	317,068	599,089
Total comprehensive income for the year	4,643,558	4,736,308
Total comprehensive income attributable to		
– Owners of the Company	3,613,170	4,275,175
– Non-controlling interests	1,030,388	461,133
	4,643,558	4,736,308

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

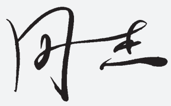
	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Non-Current Assets				
Investment properties	17	9,471,090	9,472,442	8,283,343
Property, plant and equipment	18	3,462,047	3,190,652	3,003,956
Prepaid lease payments – non-current portion	19	136,368	131,557	386,496
Toll road operating rights	20	13,899,749	14,388,904	14,289,125
Other intangible assets	21	1,197,928	1,157,760	560,922
Interests in jointly controlled entities	23	1,781,046	1,741,484	1,204,498
Interests in associates	24	1,966,769	2,062,822	585,335
Investments	26	960,137	625,486	3,318,483
Receivables under service concession arrangements – non-current portion	27	3,399,244	2,073,464	897,284
Consideration receivables	28	–	582,384	–
Deposits paid on acquisition of property, plant and equipment	29	41,569	18,030	55,092
Restricted bank deposits	30	82,270	86,446	76,476
Deferred tax assets	31	270,922	288,210	153,346
		36,669,139	35,819,641	32,814,356
Current Assets				
Inventories	32	51,021,592	54,176,104	50,238,521
Trade and other receivables	33	6,330,644	4,649,865	4,009,727
Prepaid lease payments – current portion	19	3,355	4,566	13,737
Investments	26	408,372	856,311	144,710
Receivables under service concession arrangements – current portion	27	92,964	67,536	224,821
Amounts due from customers for contract work	34	102,093	38,298	–
Prepaid taxation		399,127	475,258	542,971
Pledged bank deposits	35	447,838	333,594	108,862
Short-term bank deposits	35	212,888	1,402,294	3,060,563
Bank balances and cash	35	19,248,483	16,529,835	14,271,809
		78,267,356	78,533,661	72,615,721
Assets classified as held for sale	12	376,516	1,461,315	4,015,959
		78,643,872	79,994,976	76,631,680
Current Liabilities				
Trade and other payables	36	11,759,240	12,356,913	19,450,097
Customer deposits from sales of properties	37	10,150,596	12,991,344	12,819,794
Amounts due to customers for contract work	34	72,129	64,058	–
Convertible notes	38	–	–	2,607
Derivative financial instrument – warrants	39	–	3	16,600
Taxation payable		3,737,308	3,393,521	2,974,506
Bank and other borrowings	40	10,718,828	14,929,558	11,556,425
		36,438,101	43,735,397	46,820,029
Liabilities associated with assets classified as held for sale	12	–	–	2,836,229
		36,438,101	43,735,397	49,656,258
Net Current Assets		42,205,771	36,259,579	26,975,422
Total Assets less Current Liabilities		78,874,910	72,079,220	59,789,778

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Capital and Reserves				
Share capital	41	108,025	107,979	107,979
Share premium and reserves		32,301,464	29,954,389	24,905,035
Equity attributable to owners of the Company		32,409,489	30,062,368	25,013,014
Non-controlling interests		15,829,544	15,411,667	12,783,269
Total Equity		48,239,033	45,474,035	37,796,283
Non-Current Liabilities				
Provision for major overhauls	27	79,516	74,047	74,579
Senior notes	39	2,746,903	3,042,928	3,071,744
Bank and other borrowings	40	22,112,850	17,942,347	13,866,442
Deferred tax liabilities	31	5,696,608	5,545,863	4,980,730
		30,635,877	26,605,185	21,993,495
Total Equity and Non-Current Liabilities		78,874,910	72,079,220	59,789,778

The consolidated financial statements on pages 67 to 191 were approved and authorised for issue by the board of directors on 26 March 2013 and are signed on its behalf by:



Zhou Jie
Chief Executive Officer

Xu Bo
Deputy CEO

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000
Non-Current Assets			
Property, plant and equipment	18	5,352	3,397
Investments in subsidiaries	22	556,477	556,477
Investment in a jointly controlled entity	23	–	–
Amount due from a subsidiary	25	1,243,781	1,232,742
Investments	26	59,270	99,697
		1,864,880	1,892,313
Current Assets			
Deposits, prepayments and other receivables		60,568	394,348
Amounts due from subsidiaries	25	30,564,312	24,038,382
Short-term bank deposits	35	–	866,639
Bank balances and cash	35	2,112,433	3,446,760
		32,737,313	28,746,129
Current Liabilities			
Other payables and accrued charges		33,501	68,561
Amounts due to subsidiaries	25	6,653,936	3,604,354
Taxation payable		196,906	192,155
Bank borrowings	40	–	430,392
		6,884,343	4,295,462
Net Current Assets		25,852,970	24,450,667
Total Assets less Current Liabilities		27,717,850	26,342,980
Capital and Reserves			
Share capital	41	108,025	107,979
Share premium and reserves	43	26,366,044	25,002,259
Total Equity		26,474,069	25,110,238
Non-Current Liability			
Bank borrowings	40	1,243,781	1,232,742
Total Equity and Non-Current Liability		27,717,850	26,342,980

Zhou Jie
Chief Executive Officer

Xu Bo
Deputy CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company													Attributable to non-controlling interests				
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Capital redemption reserve HK$'000	Other revaluation reserve HK$'000 (note i)	Other reserve HK$'000 (notes ii & iii)	Merger reserve HK$'000 (note v)	Hedging reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Statutory reserves HK$'000 (note vi)	Retained profits HK$'000	Sub-total HK$'000	Convertible notes equity reserve of a listed subsidiary HK$'000	Share options reserve of listed subsidiaries HK$'000	Share of net assets of subsidiaries HK$'000	Sub-total HK$'000	Total HK$'000
At 1 January 2011, as originally stated	107,979	13,345,715	44,341	1,071	31,032	(91,757)	(6,919,541)	(10,712)	89,957	2,707,533	553,367	15,700,499	25,559,484	20	63,743	13,177,489	13,241,252	38,800,736
Adjustments (note 2)	–	–	–	–	(10,095)	(198,024)	–	–	–	(6,232)	–	(332,119)	(546,470)	–	–	(457,983)	(457,983)	(1,004,453)
At 1 January 2011, as restated	107,979	13,345,715	44,341	1,071	20,937	(289,781)	(6,919,541)	(10,712)	89,957	2,701,301	553,367	15,368,380	25,013,014	20	63,743	12,719,506	12,783,269	37,796,283
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	4,022,575	4,022,575	–	–	114,644	114,644	4,137,219
Exchange differences arising on translation of foreign operations																		
– subsidiaries	–	–	–	–	–	–	–	–	–	499,320	–	–	499,320	–	–	346,489	346,489	845,809
– jointly controlled entities	–	–	–	–	–	–	–	–	–	78,373	–	–	78,373	–	–	–	–	78,373
– associates	–	–	–	–	–	–	–	–	–	54,986	–	–	54,986	–	–	–	–	54,986
Fair value adjustment on available-for-sale investments of subsidiaries	–	–	–	–	–	–	–	–	(130,387)	–	–	–	(130,387)	–	–	–	–	(130,387)
Impairment loss on available-for-sale investments	–	–	–	–	–	–	–	–	110,474	–	–	–	110,474	–	–	–	–	110,474
Fair value gain on hedging instruments in cash flow hedges	–	–	–	–	–	–	–	2,458	–	–	–	–	2,458	–	–	–	–	2,458
Reclassification to profit or loss	–	–	–	–	–	–	–	8,254	–	–	–	–	8,254	–	–	–	–	8,254
Reclassified on disposal of the disposal group held for sale	–	–	–	–	–	–	–	–	–	(65,130)	–	–	(65,130)	–	–	–	–	(65,130)
Reclassified on disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	–	(282,893)	–	–	(282,893)	–	–	–	–	(282,893)
Reclassified on disposal of a jointly controlled entity	–	–	–	–	–	–	–	–	–	(13,336)	–	–	(13,336)	–	–	–	–	(13,336)
Reclassified on deemed disposal of a jointly controlled entity	–	–	–	–	–	–	–	–	–	(9,519)	–	–	(9,519)	–	–	–	–	(9,519)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	10,712	(19,913)	261,801	–	4,022,575	4,275,175	–	–	461,133	461,133	4,736,308
Recognition of equity-settled share-based payments	–	–	79,047	–	–	–	–	–	–	–	–	–	79,047	–	40,998	–	40,998	120,045
Transfers	–	–	–	–	–	–	–	–	–	–	126,782	(126,782)	–	–	–	–	–	–
Capital contributions by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	379,198	379,198	379,198
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(552,220)	(552,220)	(552,220)
Acquisition of SI Environment (note 44(II))	–	–	–	–	–	–	–	–	–	–	–	–	–	–	15,323	503,860	519,183	519,183
Acquisition of other subsidiaries (note 44(III))	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	40,348	40,348	40,348
Acquisition of additional interests in subsidiaries	–	–	–	–	–	(14,406)	–	–	–	–	–	–	(14,406)	–	–	(74,990)	(74,990)	(89,396)
Acquisition of a jointly controlled entity from SIIC	–	–	–	–	–	(9,384)	–	–	–	–	–	–	(9,384)	–	–	–	–	(9,384)
Disposal of the disposal group held for sale (note 12)	–	–	–	–	2,100	–	–	–	–	–	(4,364)	4,364	2,100	–	–	(150,385)	(150,385)	(148,285)
Disposal of subsidiaries (note 45(III))	–	–	–	–	38,167	(18,645)	1,025,771	–	–	–	–	(1,025,771)	19,522	–	–	(424,931)	(424,931)	(405,409)
Deemed disposal of interests in subsidiaries	–	–	–	–	–	1,042,088	–	–	–	–	–	–	1,042,088	–	–	3,211,444	3,211,444	4,253,532
Reorganisation of real estate business (note iii(a))	–	–	–	–	3,379	1,046,021	–	–	–	(41,798)	–	(94,829)	912,773	–	–	(912,773)	(912,773)	–
Reorganisation of water-related business (note iii(b))	–	–	–	–	–	(97,846)	–	–	–	–	–	–	(97,846)	–	–	97,846	97,846	–
Transfer to retained profits upon redemption of convertible notes of a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	9	9	(20)	–	11	(9)	–
Transfer to retained profits upon cancellation of share options of a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	6,444	6,444	–	(11,720)	5,276	(6,444)	–
Dividends paid (note 15)	–	–	–	–	–	–	–	–	–	–	–	(1,166,168)	(1,166,168)	–	–	–	–	(1,166,168)
At 31 December 2011, as restated	107,979	13,345,715	123,388	1,071	64,583	1,658,047	(5,893,770)	–	70,044	2,921,304	675,785	16,988,222	30,062,368	–	108,344	15,303,323	15,411,667	45,474,035

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company												Attributable to non-controlling interests				
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Capital redemption reserve HK$'000	Other revaluation reserve HK$'000 (note i)	Other reserve HK$'000 (notes ii & iv)	Merger reserve HK$'000 (note v)	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Statutory reserves HK$'000 (note vi)	Retained profits HK$'000	Sub-total HK$'000	Deferred consideration shares of a listed subsidiary HK$'000	Share options reserve of listed subsidiaries HK$'000	Share of net assets of subsidiaries HK$'000	Sub-total HK$'000	Total HK$'000
At 1 January 2012, as restated	107,979	13,345,715	123,388	1,071	64,583	1,658,047	(5,893,770)	70,044	2,921,304	675,785	16,988,222	30,062,368	–	108,344	15,303,323	15,411,667	45,474,035
Profit for the year	–	–	–	–	–	–	–	–	–	–	3,438,210	3,438,210	–	–	888,280	888,280	4,326,490
Exchange differences arising on translation of foreign operations																	
– subsidiaries	–	–	–	–	–	–	–	–	172,220	–	–	172,220	–	–	142,108	142,108	314,328
– jointly controlled entities	–	–	–	–	–	–	–	–	15,361	–	–	15,361	–	–	–	–	15,361
– associates	–	–	–	–	–	–	–	–	18,911	–	–	18,911	–	–	–	–	18,911
Fair value adjustment on available-for-sale investments																	
– subsidiaries	–	–	–	–	–	–	–	14,550	–	–	–	14,550	–	–	–	–	14,550
– a jointly controlled entity	–	–	–	–	–	–	–	(36,673)	–	–	–	(36,673)	–	–	–	–	(36,673)
Reclassified on disposal of interest in a subsidiary held for sale	–	–	–	–	–	–	–	–	(8,963)	–	–	(8,963)	–	–	–	–	(8,963)
Reclassified on disposal of a jointly controlled entity	–	–	–	–	–	–	–	–	(446)	–	–	(446)	–	–	–	–	(446)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	(22,123)	197,083	–	3,438,210	3,613,170	–	–	1,030,388	1,030,388	4,643,558
Issue of shares upon exercise of share options	46	11,337	(858)	–	–	–	–	–	–	–	–	10,525	–	–	–	–	10,525
Recognition of equity-settled share-based payments	–	–	39,831	–	–	–	–	–	–	–	–	39,831	–	8,674	–	8,674	48,505
Transfers	–	–	–	–	–	–	–	–	–	210,637	(210,637)	–	–	–	–	–	–
Capital contributions by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7,385	7,385	7,385
Return of capital to non-controlling interests upon capital reduction of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(33,227)	(33,227)	(33,227)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(149,723)	(149,723)	(149,723)
Acquisition of Nanfang Water (note 44(l))	–	–	–	–	–	–	–	–	–	–	–	–	157,694	–	251,127	408,821	408,821
Capital injections within the Group (note iv(a))	–	–	–	–	–	42,285	–	–	–	–	–	42,285	–	–	(42,285)	(42,285)	–
Acquisition of additional interest in a subsidiary (note iv(b))	–	–	–	–	–	(214,422)	–	–	–	–	–	(214,422)	–	–	(776,698)	(776,698)	(991,120)
Disposal of interest in a subsidiary held for sale (note 12)	–	–	–	–	(9,728)	(262)	–	–	–	(8,872)	9,134	(9,728)	–	–	(36,159)	(36,159)	(45,887)
Deregistration of subsidiaries	–	–	–	–	–	–	22,089	–	–	(27,867)	5,778	–	–	–	(6,023)	(6,023)	(6,023)
Deemed disposal of interests in subsidiaries	–	–	–	–	–	1,516	–	–	–	–	–	1,516	–	–	37,033	37,033	38,549
Transfer to retained profit upon cancellation/expiry of share options of listed subsidiaries	–	–	–	–	–	–	–	–	–	–	30,309	30,309	–	(46,681)	16,372	(30,309)	–
Dividends paid (note 15)	–	–	–	–	–	–	–	–	–	–	(1,166,365)	(1,166,365)	–	–	–	–	(1,166,365)
At 31 December 2012	108,025	13,357,052	162,361	1,071	54,855	1,487,164	(5,871,681)	47,921	3,118,387	849,683	19,094,651	32,409,489	157,694	70,337	15,601,513	15,829,544	48,239,033

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

notes:

(i) Other revaluation reserve is comprised of fair value adjustments on acquisition of subsidiaries relating to interests previously held by the Company and its subsidiaries (collectively referred to as the "Group") as associates/jointly controlled entities and fair value adjustments arising upon the transfer of property, plant and equipment to investment properties in prior years.

(ii) The Group accounts for acquisitions of associates, jointly controlled entities or investee companies from its ultimate parent, Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"), as equity transactions and any difference between the consideration paid and the fair value of the interest acquired is recorded in other reserve. In addition, the Group accounts for changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over those subsidiaries as equity transactions and any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recorded in other reserve.

(iii) During the year ended 31 December 2011, the Group completed the reorganisation of its real estate business and water-related business, which were accounted for as equity transactions, as follows:

(a) On 23 November 2011, the Company completed the sale of the entire issued share capital of Silvery Champ Limited ("Silvery Champ") and the shareholder's loan of approximately HK$4,987.4 million owing by Silvery Champ to Shanghai Industrial Urban Development Group Limited ("SI Urban Development"), which is controlled and 45.02% owned by the Company. Silvery Champ indirectly owns 59% equity interest in Shanghai Urban Development (Holdings) Company Limited ("Shanghai Urban Development"). The aggregate consideration of the above transactions was approximately HK$5,640.5 million.

On the same day, the Company also completed the assignment of a dividend receivable from Shanghai Urban Development of RMB395 million (equivalent to approximately HK$469.6 million) to SI Urban Development.

As consideration, 2,182,191,000 shares were allotted and issued by SI Urban Development at an issue price of HK$2.8 per share to Novel Good Limited, a wholly owned subsidiary of the Company. Upon completion, Shanghai Urban Development became a 59% owned subsidiary of SI Urban Development and the Group's shareholding in SI Urban Development increased from 45.02% to 69.95%.

The above transactions resulted in a decrease in the carrying amount of non-controlling interests by HK$912,773,000.

(b) On 28 December 2011, the Company completed the sale of its entire 60.4% equity interest in 聯合潤通水務股份有限公司 (United Environment Co., Ltd.) ("United Environment") to SIIC Environment Holdings Ltd. (formerly known as "Asia Water Technology Limited") ("SI Environment"), a 52.86% owned listed subsidiary of the Company. United Environment, SI Environment and their subsidiaries are principally engaged in the business of sewage treatment and water supply in the PRC. The consideration of the transaction amounted to RMB483,200,000 (equivalent to HK$596,543,000), which was satisfied partly in cash of RMB217,440,000 (equivalent to HK$268,444,000) and the balance by way of allotment and issuance of 827,082,375 new shares of SI Environment at an issue price of S$0.064 per share. Upon completion, United Environment became a 60.4% owned subsidiary of SI Environment.

On the same day, SI Environment further acquired 15.1% equity interest in United Environment from certain independent third parties at a consideration of RMB120,800,000 (equivalent to HK$149,136,000), which was satisfied by way of allotment and issuance by SI Environment of 375,951,078 new shares at an issue price of S$0.064 per share. SI Environment's shareholding in United Environment then increased from 60.4% to 75.5% and the Group's shareholding in SI Environment ultimately increased from 52.86% to 55.23%.

The above transactions resulted in an increase in the carrying amount of non-controlling interests by HK$97,846,000.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

notes: (Continued)

(iv) During the year ended 31 December 2012, the Group completed four capital injections within the Group and acquisition of additional interest in a subsidiary, which are also accounted for as equity transactions, as follows:

(a) In August 2012, Shanghai Industrial Development Co., Ltd. ("SI Development"), a 63.65% owned subsidiary of the Group, acquired 51% equity interests in two wholly owned subsidiaries of the Group by way of capital injection. The aggregate capital injection amounted to RMB495,578,000 (equivalent to HK$504,954,000). Also in August 2012, the Group, through two wholly owned subsidiaries, acquired 49% equity interests in two wholly owned subsidiaries of SI Development by injecting an aggregate capital of RMB288,683,000 (equivalent to HK$352,396,000). Upon completion of this series of capital injections, the Group effectively holds 81.46% equity interest in each of the four concerned subsidiaries.

The above capital injections resulted in a decrease in the carrying amount of the non-controlling interests by HK$42,285,000.

(b) In March 2012, the Group acquired an additional 49.34% equity interest in a subsidiary at a consideration of approximately HK$991 million from the non-controlling shareholder and the subsidiary then became wholly owned. The difference between the consideration paid and the carrying value of the interest acquired amounting to approximately HK$214 million is recorded in other reserve.

(v) Merger reserve represents the difference in the fair value of the consideration paid to SIIC for the acquisition of subsidiaries/businesses controlled by SIIC and the share capital of the acquired subsidiaries.

(vi) The statutory reserves are reserves required by the relevant laws in the People's Republic of China (the "PRC") applicable to the Group's PRC subsidiaries, jointly controlled entities and associates.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		5,947,741	6,317,006
Adjustments for:			
Amortisation of other intangible assets		47,005	25,757
Amortisation of toll road operating rights		610,895	532,601
Change in fair value of a financial asset designated as at FVTPL		–	(144,506)
Change in fair value of Warrants 2012	39	(3)	(16,597)
Depreciation of property, plant and equipment		262,615	269,889
Dividend income from listed equity investments		(11,422)	(9,443)
Equity-settled share-based payments		48,505	120,045
Fair value gain on transfer of properties held for sale to investment properties		–	(152,212)
Finance costs		1,031,715	1,078,804
Gain from bargain purchase of interests in subsidiaries	44(II)	–	(73,671)
Gain on disposal of available-for-sale investments		–	(3,273)
Gain on disposal of Feng Shun		(1,276,515)	–
Gain on disposal of interests in other subsidiaries, jointly controlled entities and associates		(668,876)	(1,773,231)
Gain on disposal of interests in subsidiaries holding property interests	45(II)(iii)	–	(1,261,588)
(Gain) loss on disposal/written off of property, plant and equipment		(3,545)	1,315
Impairment loss on available-for-sale investments		40,427	110,474
Impairment loss on bad and doubtful debts		2,632	65,514
Impairment loss on other intangible assets		–	8,285
Impairment loss on inventories, other than properties		114,991	77,685
Impairment loss on properties held for sale		71,627	57,742
Increase in fair value of investment properties		(22,947)	(453,791)
Interest income		(457,876)	(331,375)
Provision for major overhauls		8,739	1,213
Release of prepaid lease payments		3,818	10,634
Reversal of impairment loss on bad and doubtful debts		(33,687)	(10,890)
Reversal of impairment loss on an associate		(4,000)	–
Reversal of impairment loss on other receivables		(587,079)	–
Share of results of associates		(13,512)	(36,587)
Share of results of jointly controlled entities		(27,520)	(19,960)
Operating cash flows before movements in working capital		5,083,728	4,389,840
Decrease (increase) in inventories		1,234,061	(8,158,432)
Decrease (increase) in financial assets at fair value through profit or loss		264,132	(703,833)
Decrease (increase) in trade and other receivables		334,506	(645,211)
Increase in receivables under service concession arrangements		(40,180)	(67,955)
Net movement in amounts due from (to) customers for contract work		(38,008)	11,411
Increase in trade and other payables		1,208,174	6,584,895
Decrease in customer deposits from sales of properties		(2,957,088)	(406,858)
Decrease in provision for major overhauls		(3,911)	(5,110)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Cash generated from operations		5,085,414	998,747
PRC Enterprise Income Tax ("EIT") paid		(405,950)	(728,058)
PRC Land Appreciation Tax ("LAT") paid		(745,382)	(710,113)
Hong Kong Profits Tax paid		(135,736)	(175,715)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		3,798,346	(615,139)
INVESTING ACTIVITIES			
Decrease in restricted/pledged/short-term bank deposits		1,079,338	1,425,283
Disposal of assets classified as held for sale/disposal group held for sale	12	774,710	558,927
Disposal of Feng Shun	51(I)(j)	653,620	–
Interest received		375,476	893,067
Proceeds from disposal of available-for-sale investments		372,011	26,750
Decrease in consideration receivables	28	341,782	–
Proceeds from disposal of investment properties		187,357	116,575
Disposal of other subsidiaries	45	178,664	3,029,772
Dividends received from associates		68,172	48,649
Proceeds from disposal of property, plant and equipment		60,946	37,816
Dividends received from jointly controlled entities		13,523	2,448
Dividends received from listed equity investments		11,422	8,395
Proceeds from disposal of interests in associates		4,000	5,971
Purchase of available-for-sale investments		(474,208)	(11,748)
Purchase of property, plant and equipment		(303,018)	(744,982)
Acquisition of subsidiaries/businesses	44	(215,723)	611,633
Purchase of and subsequent expenditures on investment properties		(124,245)	(108,026)
(Increase) decrease in deposits paid on acquisition of property, plant and equipment		(23,539)	37,062
Acquisition of an associate		(12,294)	–
Increase in prepaid lease payments		(7,805)	(37,190)
Deregistration of a non-wholly owned subsidiary		(6,023)	–
Acquisition of subsidiaries under common control		–	(6,157,669)
Capital injection to an associate		–	(1,201,084)
Capital injection to a jointly controlled entity		–	(393,423)
Disposal of subsidiaries holding property interests	45(II)(iii)	–	474,778
Repayment from the vendor of a PRC investment project		–	436,424
Proceeds from disposal of interest in a jointly controlled entity		–	65,953
NET CASH FROM (USED IN) INVESTING ACTIVITIES		2,954,166	(874,619)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		(18,748,184)	(7,154,487)
Dividends paid		(1,166,365)	(1,166,168)
Interest paid		(1,034,455)	(1,793,637)
Acquisition of additional interests in subsidiaries		(991,120)	(89,396)
Dividends paid to non-controlling interests		(149,723)	(552,220)
Return of capital to non-controlling interests upon capital reduction of a subsidiary		(33,227)	–
Bank and other borrowings raised		17,894,205	11,502,378
Advance from (repayment to) fellow subsidiaries	36	46,073	(2,016,392)
Proceeds from deemed disposal of interests in subsidiaries		38,549	4,253,532
Proceeds from issue of shares upon exercise of share options		10,525	–
Capital contributions by non-controlling interests		7,385	379,198
Payment for redemption of CN 2011	38	–	(2,714)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(4,126,337)	3,360,094
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,626,175	1,870,336
CASH AND CASH EQUIVALENTS AT 1 JANUARY		16,529,835	14,452,550
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		92,473	206,949
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		19,248,483	16,529,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate parent is SIIC, a private limited company also incorporated in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" of the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries, jointly controlled entities and associates are set out in notes 54, 55 and 56, respectively.

The consolidated financial statements are presented in Hong Kong dollar, which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets;
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in 2012.

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"

The Group has applied for the first time the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that certain of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is rebutted. For the remaining investment properties, the 'sale' presumption is not rebutted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" (Continued)

As a result of the application of the amendments to HKAS 12, the Group recognises further deferred taxes on changes in fair value of the investment properties in relation to PRC LAT, which is the additional tax to be charged if a property in the PRC is recovered through sale. Previously, the Group recognised deferred taxes on changes in fair value of investment properties only on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being increased by HK$1,004,453,000 as at 1 January 2011, with the corresponding debit being recognised in retained profits, various reserves and non-controlling interests. Similarly, the deferred tax liabilities have been increased by HK$1,186,289,000 as at 31 December 2011.

The change in accounting policy has resulted in a decrease in the Group's income tax expense (and hence an increase in profit) for the year ended 31 December 2012 by HK$90,126,000 and an increase in the Group's income tax expense (and hence a decrease in profit) for the year ended 31 December 2011 by HK$142,324,000.

Amendments to HKAS 1 "Presentation of Financial Statements" (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is "Annual Improvements to HKFRSs (2009-2011 Cycle)". The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or classification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" for the first time, which has resulted in a material effect on the information in the consolidated statement of financial position as at 1 January 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1 January 2011 without the related notes.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Summary of the effects of the above changes in accounting policies

The effects of changes in accounting policies described above on the results for the current and prior years by line items are as follows:

	2012 HK$'000	2011 HK$'000
(Decrease) increase in income tax expense and (increase) decrease in profit for the year attributable to		
– Owners of the Company	(63,116)	65,893
– Non-controlling interests	(27,010)	76,431
	(90,126)	142,324

The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2011 and 31 December 2011 are as follows:

	1.1.2011 HK$'000 (originally stated)	Adjustments HK$'000	1.1.2011 HK$'000 (restated)	31.12.2011 HK$'000 (originally stated)	Adjustments HK$'000	31.12.2011 HK$'000 (restated)
Deferred tax liabilities	(3,976,277)	(1,004,453)	(4,980,730)	(4,359,574)	(1,186,289)	(5,545,863)
Reserves	25,559,484	(546,470)	25,013,014	30,811,344	(748,976)	30,062,368
Non-controlling interests	13,241,252	(457,983)	12,783,269	15,848,980	(437,313)	15,411,667
Total effect on equity	38,800,736	(1,004,453)	37,796,283	46,660,324	(1,186,289)	45,474,035

The effects of the above changes in accounting policies on the financial positions of the Group as at 31 December 2012 are as follows:

	31.12.2012 HK$'000
Increase in deferred tax liabilities	1,102,177
Decrease in reserves	753,014
Decrease in non-controlling interests	349,163
Total effect on equity	1,102,177

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Summary of the effects of the above changes in accounting policies (Continued)

The effects of the above changes in accounting policies on the Group's basic and diluted earnings per share for the current and prior years are as follows:

Impact on basic and diluted earnings per share

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2012 HK$	2011 HK$	2012 HK$	2011 HK$
Figures before adjustments	3.126	3.786	3.124	3.786
Adjustments on application of amendments to HKAS 12 in respect of deferred taxes on investment properties	0.058	(0.061)	0.058	(0.061)
Figures after adjustments	3.184	3.725	3.182	3.725

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. The recognition and measurement of the Group's unlisted available-for-sale equity investment which are stated at cost less impairment will be affected.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on an analysis of the Group's financial assets as at 31 December 2012, the adoption of HKFRS 9 will affect the reclassification and measurement of the Group's available-for sale equity investments but will not have a significant impact on the amounts reported in respect of the Group's other financial assets. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. HK(SIC)-Int 12 "Consolidation-Special Purpose Entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC)-Int 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE (Continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company are still assessing the financial effect of the application of HKFRS 10 on the Group whereas it is anticipated that the application of HKFRS 11 will not have significant impact to the Group since the Group's jointly controlled entities that are currently accounted for using the equity method of accounting would be classified as joint ventures and accounted for in accordance with HKFRS 11. The directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 "Fair Value Measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis-the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE (Continued)

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" (Continued)

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)
When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits", respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Merger accounting for business combination involving entities under common control

Business combination involving entities under common control includes acquisition of subsidiaries/businesses controlled by SIIC.

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for business combination involving entities under common control (Continued)

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 "Financial Instruments: Recognition and Measurement"). Under the equity method, investments in jointly controlled entities are initial recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in jointly controlled entities (Continued)

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Interests in associates

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations") or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 "Financial Instruments: Recognition and Measurement"). The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Financial instruments" below.

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

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

Operating services

Revenue and costs relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts

Where the outcome of a construction contract including construction or upgrade services of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods (including water supplied under service concession arrangements) is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Service income including that from operating service provided under service concession arrangements and hotel operation is recognised when services are provided.

Income from construction contracts is recognised as set out in the accounting policy for "Construction contracts" above.

Toll fee income from the operation of toll roads, net of business tax payable in the PRC, is recognised at the time of usage.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purpose).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Subsequent expenditures (including refurbishment and decoration) incurred for investment properties are capitalised as part of the carrying amount of the investment properties.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including hotel property and leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets or liabilities acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition which is regarded as its cost.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired separately (Continued)
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure
Expenditure on research and development activities (where no internally-generated intangible asset can be recognised) is recognised as an expense in the period in which it is incurred.

Toll road operating rights
Toll road operating rights are stated at costs less amortisation and any accumulated impairment losses. Amortisation is provided to write off the costs of toll road operating rights on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the periods for which the Group is granted the rights to operate the toll roads.

Operating concessions
Operating concessions represent the rights to operate sewage and water treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 50 years.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Inventories

Properties under development held for sale and properties held for sale
Properties under development held for sale and properties held for sale are stated at the lower of cost and net realisable value on an individual basis. Cost comprises the acquisition cost and other direct costs attributable to such properties.

Others
Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories (Continued)

Transfer from inventories to investment properties carried at fair value
The Group transfers a property from inventories to investment properties when there is a change of intention to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognised in profit or loss.

Transfer from inventories to leasehold land and buildings carried at cost
The Group transfers a property from inventories to leasehold land and buildings at cost when there is a change of intended use of the property from sale to owner occupied purpose, which is evidenced by the commencement of owner-occupation.

Financial instruments
Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets
The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL, of which interest income is included in net investment income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss
Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in net investment income line item in the consolidated income statement. Fair value is determined in the manner described in note 26.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including receivables under service concession arrangements, consideration receivables, restricted bank deposits, trade and other receivables, amounts due from subsidiaries, pledged bank deposits, short-term bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment of financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)
For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments
Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities
The Group's financial liabilities, including trade and other payables, amounts due to subsidiaries, liability component of convertible notes and bank and other borrowings, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives
Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation (if appropriate) recognised in accordance with HKAS 18 "Revenue".

Equity-settled share-based payment transactions

Share options granted to employees and others providing similar services

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period/recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to employees and others providing similar services (Continued)
In case of share options granted by a subsidiary, the share options reserve of the subsidiary is classified as and grouped under non-controlling interests by the Group on consolidation. At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium of that subsidiary. The Group will account for the dilution as an equity transaction in accordance with HKAS 27 if the exercise of share options does not constitute a loss of the Group's control over that subsidiary. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits of the Group and non-controlling interests' share of net assets of that subsidiary according to the proportion of interests held by the Group and non-controlling shareholders on consolidation.

Share-based payment transactions of the acquiree in a business combination
At the acquisition date, when the outstanding equity-settled share-based payment transactions held by the employees of an acquiree are not exchanged by the Group for its share-based payment transactions, the acquiree share-based payment transactions are measured at their market-based measure at the acquisition date. If the share-based payment transactions have vested by the acquisition date, they are included as part of the non-controlling interest in the acquiree. However, if the share-based payment transactions have not vested by the acquisition date, the market-based measure of the unvested share-based payment transactions is allocated to the non-controlling interest in the acquiree based on the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of those share options. The balance is recognised as remuneration cost for post-combination service.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that certain of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted for such properties. For the properties on which the 'sale' presumption is not rebutted, the Group has further recognised deferred taxes on changes in fair value of investment properties in relation to PRC LAT, which is the additional tax to be charged if a property in the PRC is recovered through sale.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position at 31 December 2012 at their fair value, details of which are disclosed in note 17. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent firm of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavorable changes to these assumptions may result in changes in the fair value of the Group's investment properties and corresponding adjustments to the changes in fair value reported in the consolidated income statement and the carrying amount of these properties included in the consolidated statement of financial position.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Amortisation of toll road operating rights
Toll road operating rights amounting to approximately HK$13,900 million as at 31 December 2012 (31.12.2011: HK$14,389 million) are amortised on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the operating period of the toll roads. If the actual traffic volume differs from the original projection, such difference will impact the amount of amortisation for the remaining operating period of the toll roads.

Allowance for properties under development and properties held for sale
Management regularly reviews the recoverability of the Group's properties under development and properties held for sale with reference to the current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceed their recoverable amounts. Appropriate allowance for properties under development and properties held for sale is made if the estimated recoverable amount is lower than its carrying amount. As at 31 December 2012, the aggregate carrying amount of properties under development and properties held for sale was approximately HK$49,779 million (31.12.2011: HK$53,229 million).

Recognition and allocation of construction cost on properties under development
Development costs of properties are recorded as properties under development during the construction stage and will be transferred to profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group typically divides the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated cost of each phase as a percentage of the total estimated cost of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area.

Where the final settlement of costs and the related cost allocation are different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

PRC LAT
PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights, borrowing costs and all property development expenditures.

The Group is subject to LAT in the PRC which has been included in income tax expense of the Group. However, the Group has not finalised its LAT returns with the tax authorities for certain of its property development projects. Accordingly, significant judgment is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and deferred income tax provisions in the period in which such determination is made. As at 31 December 2012, the carrying amount of LAT provision (included in taxation payable) was approximately HK$1,476 million (31.12.2011: HK$1,519 million).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of trade and other receivables
The Group estimates impairment losses for trade and other receivables resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the aging of the trade and other receivables balance, debtor credit-worthiness, and historical write-off experience. If the financial conditions of the debtors were to deteriorate, actual write-offs would be higher than estimated.

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the aggregate carrying amount of trade and other receivables was approximately HK$6,331 million (31.12.2011: HK$4,650 million).

Estimation of contract revenue and costs
The Group recognises contract revenue and profit on a construction contract according to the management's estimation of the total outcome of the project as well as the percentage of completion of construction works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit recognised.

6. REVENUE

Revenue represents the aggregate of the net amounts received or receivable from third parties. An analysis of the Group's revenue for the year is as follows:

	2012 HK$'000	2011 HK$'000
Sales of properties	12,359,686	8,072,782
Sales of goods	3,427,091	3,932,055
Income from infrastructure facilities	2,848,463	2,453,826
Rental income	563,080	386,986
Income from hotel operation	88,590	123,483
	19,286,910	14,969,132

7. NET INVESTMENT INCOME

	2012 HK$'000	2011 HK$'000
Interest on bank deposits	255,622	228,033
Interest on available-for-sale investments	22,784	9,937
Interest on financial assets designated as at FVTPL	–	24,506
Other interest income	179,470	68,899
Total interest income	457,876	331,375
Change in fair value of financial assets classified as held for trading	137,295	(26,974)
Change in fair value of financial assets designated as at FVTPL	1,214	130,865
Dividend income from listed equity investments	11,422	9,443
Gain on disposal of available-for-sale investments (other than Feng Shun)	–	3,273
Rental income from property, plant and equipment	545	670
	608,352	448,652

Net investment income earned from financial assets, analysed by category of asset, is as follows:

	2012 HK$'000	2011 HK$'000
Financial assets at FVTPL	149,931	137,840
Loans and receivables (including bank balances and cash)	435,092	306,869
Available-for-sale financial assets	22,784	3,273
	607,807	447,982
Investment income earned on non-financial assets	545	670
	608,352	448,652

Included above is gain from listed investments of HK$149,931,000 (2011: loss of HK$17,531,000) and income from unlisted investments of HK$22,784,000 (2011: HK$158,644,000).

8. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on bank and other borrowings		
– wholly repayable within five years	1,516,532	1,424,688
– not wholly repayable within five years	82,773	77,164
Interest on convertible notes	–	107
Interest on senior notes	196,244	283,268
	1,795,549	1,785,227
Less: amounts capitalised in properties under development held for sale	(763,834)	(706,423)
	1,031,715	1,078,804

Borrowing costs capitalised during the year arose on the general borrowings pool and are calculated by applying capitalisation rates ranging from 5.8% to 9.3% (2011: 6.1% to 10.9%) per annum to expenditure on qualifying assets.

9. GAIN ON DISPOSAL OF INTERESTS IN OTHER SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

	2012 HK$'000	2011 HK$'000
Gain on disposal of interests in subsidiaries and a jointly controlled entity classified as held for sale (note 12)	309,654	341,618
Net gain on disposal of interests in other subsidiaries (note 45)	359,222	1,372,457
Fair value gain on revaluation of interest in an associate upon transfer to as a subsidiary (note 44(III))	–	25,741
Gain on deemed partial disposal of interest in a jointly controlled entity	–	17,859
Gain on disposal of a jointly controlled entity	–	13,684
Gain on disposal of interest in an associate	–	1,872
	668,876	1,773,231

10. IMPAIRMENT LOSS ON AVAILABLE-FOR-SALE INVESTMENTS

	2012 HK$'000	2011 HK$'000
Impairment loss on		
– listed equity investments	–	110,474
– unlisted equity investments	40,427	–
	40,427	110,474

11. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000 (restated)
Current tax		
– Hong Kong	151,063	154,323
– PRC LAT	702,433	650,405
– PRC EIT (including PRC withholding tax of HK$30,203,000 (2011: HK$15,285,000))	1,098,431	1,180,540
	1,951,927	1,985,268
(Over) underprovision in prior years		
– Hong Kong	(1,275)	22,113
– PRC LAT (note iv)	(94,902)	–
– PRC EIT (note iv)	(192,180)	(14,812)
	(288,357)	7,301
Deferred taxation for the year (including PRC withholding tax of HK$143,596,000 (2011: HK$59,847,000) and PRC LAT credit of HK$185,042,000 (2011: PRC LAT expense of HK$170,665,000)) (note 31)	(42,319)	187,218
	1,621,251	2,179,787

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2012 HK$'000	2011 HK$'000 (restated)
Profit before taxation	5,947,741	6,317,006
Tax at PRC statutory tax rate of 25%	1,486,935	1,579,252
Tax effect of share of results of jointly controlled entities and associates	(10,258)	(14,137)
Tax effect of expenses not deductible for tax purpose	157,002	195,360
Tax effect of income not taxable for tax purpose	(221,772)	(270,968)
(Over) underprovision of Hong Kong Profits Tax and PRC EIT in prior years	(193,455)	7,301
Tax effect of tax losses not recognised as deferred tax assets	212,005	232,619
Utilisation of tax losses previously not recognised as deferred tax assets	(45,705)	(62,019)
Effect of PRC subsidiaries subject to a lower tax rate	(47,158)	(42,923)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(203,807)	(134,775)
PRC LAT in respect of		
– properties under development/properties held for sale	639,995	638,484
– investment properties	(122,604)	182,586
Overprovision of PRC LAT in prior years	(94,902)	–
Tax effect of PRC LAT deductible for PRC EIT	(105,622)	(205,268)
Tax charge on dividend withholding tax	173,799	75,132
Others	(3,202)	(857)
Income tax expense for the year	1,621,251	2,179,787

11. INCOME TAX EXPENSE (Continued)

notes:

(i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(ii) The Group's major subsidiaries in the PRC are subject to PRC EIT at a rate of 25%. A PRC subsidiary is taxed at a lower rate of 12.5% (2011: 12%) on a transitional basis.

(iii) PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including cost of land use rights, borrowing costs and all qualified property development expenditures.

(iv) The Group recognised an overprovision of PRC LAT and PRC EIT during the current year upon completion of tax clearance procedures by certain PRC subsidiaries with the respective tax authorities.

12. ASSETS CLASSIFIED AS HELD FOR SALE/DISPOSAL GROUP HELD FOR SALE

(I) Assets classified as held for sale as at 31 December 2012

The assets classified as held for sale, which have been presented separately in the consolidated statement of financial position, are as follows:

	HK$'000
Investment properties (note i)	301,593
Interest in an associate (note ii)	74,923
	376,516

notes:

(i) As disclosed in note 17, the Group entered into sales and purchase agreements during the current year to dispose of certain investment properties to independent third parties for an aggregate consideration of RMB242,481,000 (equivalent to HK$301,593,000). The properties will be delivered and the disposals are expected to be completed within the next twelve months upon fulfillment of certain conditions precedent. As at 31 December 2012, deposits of RMB146,033,000 (equivalent to HK$181,633,000) were received and included in other payables.

(ii) In November 2012, the Group decided to dispose of its entire 30% equity interest in an associate, namely Zhejiang Tianwai Package Printing Co., Ltd. ("Zhejiang Tianwai"), to an independent third party for a consideration of RMB123,750,000 (equivalent to HK$152,140,000). The interest in Zhejiang Tianwai with a carrying amount of HK$74,923,000 as at 31 December 2012, which is expected to be sold within twelve months from the end of the reporting period, has been classified as assets held for sale and is presented separately in the consolidated statement of financial position. The proceeds of the disposal exceed the carrying amount of the assets and accordingly, no impairment loss will be recognised. As at 31 December 2012, a deposit of RMB30,000,000 (equivalent to HK$37,010,000) was received and included in other payables.

12. ASSETS CLASSIFIED AS HELD FOR SALE/DISPOSAL GROUP HELD FOR SALE (Continued)

(II) Assets classified as held for sale as at 31 December 2011

The assets classified as held for sale as at 31 December 2011, which were presented separately in the consolidated statement of financial position at that date, are as follows:

	Chengdu Wing Fat HK$'000 (note i)	Qingdao Company HK$'000 (note ii)	Total HK$'000
Property, plant and equipment (note iii)	55,831	–	55,831
Prepaid lease payments	4,796	–	4,796
Premium on prepaid lease payments	56,836	–	56,836
Interest in a jointly controlled entity	–	1,343,852	1,343,852
Total assets classified as held for sale	117,463	1,343,852	1,461,315

notes:

(i) In March 2011, the Group and the non-controlling shareholder of Chengdu Wing Fat Printing Co. Ltd. ("Chengdu Wing Fat"), a non-wholly owned subsidiary of the Group, entered into a framework agreement with an independent third party to dispose of their entire interests in Chengdu Wing Fat which holds certain land and buildings in the PRC at a cash consideration of RMB330,000,000 (equivalent to HK$406,805,000). The assets attributable to Chengdu Wing Fat were classified as held for sale and presented separately in the consolidated statement of financial position as at 31 December 2011. The disposal was completed on 28 June 2012, on which date the Group lost control over Chengdu Wing Fat.

(ii) In December 2011, the Group entered into a conditional agreement to dispose of a real estate project company in Qingdao ("Qingdao Company"), being a 50% held jointly controlled entity, to a purchaser company, which is deemed to be a connected person of the Company under the Listing Rules, at a cash consideration of approximately RMB1,183 million (equivalent to approximately HK$1,458 million). The Group's interest in Qingdao Company was also classified as assets held for sale and presented separately in the consolidated statement of financial position as at 31 December 2011. Qingdao Company's major asset is a piece of land in Qingdao, the PRC. The disposal was completed in February 2012.

(iii) The above property, plant and equipment represent properties erected on land held under medium-term land use rights in the PRC.

12. ASSETS CLASSIFIED AS HELD FOR SALE/DISPOSAL GROUP HELD FOR SALE (Continued)

(II) Assets classified as held for sale as at 31 December 2011 (Continued)

notes: (Continued)

(iv) The net assets of Chengdu Wing Fat and Qingdao Company at the respective dates of disposal were as follows:

	Chengdu Wing Fat HK$'000	Qingdao Company HK$'000	Total HK$'000
Net assets disposed of	116,179	1,343,852	1,460,031
Reclassification of reserves upon disposal to profit or loss	(18,691)	–	(18,691)
	97,488	1,343,852	1,441,340
Non-controlling interests	(36,159)	–	(36,159)
	61,329	1,343,852	1,405,181
Gain on disposal			
– a subsidiary	195,289	–	195,289
– a jointly controlled entity	–	114,365	114,365
	195,289	114,365	309,654
Total consideration	256,618	1,458,217	1,714,835
Satisfied by:			
Cash received	56,138	718,572	774,710
Consideration received in advance (note 36)	226,220	739,645	965,865
Provision for onerous contracts (included in other payables)	(25,740)	–	(25,740)
	256,618	1,458,217	1,714,835
Net cash inflow arising on disposal:			
Total cash consideration received	56,138	718,572	774,710

(v) The impact of Chengdu Wing Fat and Qingdao Company on the Group's results and cash flows in the current and prior periods is not significant.

12. ASSETS CLASSIFIED AS HELD FOR SALE/DISPOSAL GROUP HELD FOR SALE (Continued)

(iii) Disposal group held for sale as at 1 January 2011

(i) In October 2010, the Group decided to dispose of its entire 78.13% equity interest in a subsidiary, namely 河北永新紙業有限公司 (Hebei Yongxin Paper Co., Ltd.) ("Hebei Yongxin"), which is engaged in the containerboard business. In January 2011, the Group entered into an agreement with certain independent third parties pursuant to which the Group would dispose of the said interest for an aggregate consideration of RMB564,000,000 (equivalent to HK$670,857,000). The assets and liabilities attributable to Hebei Yongxin were classified as a disposal group held for sale and presented separately in the consolidated statement of financial position as at 1 January 2011. The disposal was completed on 31 May 2011, on which date the Group lost control over Hebei Yongxin, and resulted in a gain of HK$182,769,000.

(ii) Two wholly owned subsidiaries of SI Development, namely 泉州上實置業有限公司("泉州上實") and 福建上實地產開發有限公司("福建上實"), entered into capital injection agreements with certain independent third parties in December 2010. Pursuant to the agreements, the third parties would inject RMB90 million (equivalent to approximately HK$106 million) each into 泉州上實 and 福建上實 and a total consideration of RMB130,352,000 (equivalent to HK$158,849,000) would be paid to SI Development. 泉州上實 and 福建上實 are principally engaged in property development. The assets and liabilities attributable to 泉州上實 and 福建上實 were classified as a disposal group held for sale and presented separately in the consolidated statement of financial position as at 1 January 2011. Upon completion of the above capital injections in January 2011, SI Development lost control over 泉州上實 and 福建上實 and a gain of HK$158,849,000 was recognised.

13. PROFIT FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging:		
Employee benefits expense, including directors' emoluments:		
Basic salaries and allowances	673,556	557,263
Bonuses	44,649	42,575
Equity-settled share-based payments	40,745	102,731
Retirement benefits scheme contributions, net of forfeited contributions of HK$13,000 (2011: HK$183,000)	55,524	50,908
	814,474	753,477
Amortisation of toll road operating rights (included in cost of sales)	610,895	532,601
Amortisation of other intangible assets		
– included in cost of sales	47,005	24,662
– included in administrative and other expenses	–	1,095
Depreciation of property, plant and equipment	262,615	269,889
Release of prepaid lease payments	3,818	10,634
Total depreciation and amortisation	924,333	838,881
Auditors' remuneration	17,603	15,942
Cost of inventories recognised as an expense	12,023,109	8,171,635
Compensation to customers as a result of late delivery of properties	181,677	132,832
Equity-settled share-based payments in respect of options granted to eligible participants other than employees	7,760	17,314
Impairment loss on bad and doubtful debts	2,632	65,514
Impairment loss on properties held for sale	71,627	57,742
Impairment loss on other intangible assets	–	8,285
Impairment loss on inventories, other than properties	114,991	77,685
Provision for major overhauls (included in cost of sales)	8,739	1,213
Loss on disposal of property, plant and equipment	–	1,315
Operating lease rentals in respect of land and buildings to		
– fellow subsidiaries	10,330	10,367
– others	25,901	82,507
Research and development costs	16,462	8,019
Share of PRC EIT of jointly controlled entities (included in share of results of jointly controlled entities)	15,758	17,359
Share of PRC EIT of associates (included in share of results of associates)	10,607	29
Settlement of litigations	–	44,267

13. PROFIT FOR THE YEAR (Continued)

	2012 HK$'000	2011 HK$'000
and after crediting other income as follows:		
Change in fair value of Warrants 2012 (defined in note 39)	3	16,597
Fair value gain on transfer of properties held for sale to investment properties (note 17)	–	152,212
Increase in fair value of investment properties	22,947	453,791
Net foreign exchange gains	64,214	281,354
Reversal of impairment loss on other receivables (note)	587,079	–
Reversal of impairment loss on investment in an associate	4,000	–
Compensation income (note)	178,703	–
Gain on disposal/written off of property, plant and equipment	3,545	–
Reversal of impairment loss on bad and doubtful debts	33,687	10,890

note: In a prior year, the Group recognised full impairment against a deposit of approximately RMB478 million (equivalent to approximately HK$587 million) paid to a counterparty for the acquisition of a property project. During the current year, the Group reached an agreement with the counterparty whereby the counterparty agreed to (i) refund the deposit in full to the Group and (ii) pay the Group for a compensation of approximately RMB145.5 million (equivalent to approximately HK$179 million). Accordingly, the Group recognised a reversal of impairment loss of HK$587 million and compensation income of approximately HK$179 million for the year ended 31 December 2012.

14. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the thirteen (2011: ten) former and existing directors of the Company were as follows:

	Teng Yi Long HK$'000	Zhou Jie HK$'000	Lu Shen HK$'000 (note i)	Zhou Jun HK$'000	Xu Bo HK$'000 (note ii)	Qian Yi HK$'000	Cai Yu Tian HK$'000 (note iii)	Qian Shi Zheng HK$'000 (note iv)	Lu Ming Fang HK$'000 (note v)	Lo Ka Shui HK$'000	Woo Chia-Wei HK$'000	Leung Pak To, Francis HK$'000	Cheng Hoi Chuen, Vincent HK$'000 (note vi)	Total HK$'000
Year ended 31 December 2012														
Independent non-executive directors:														
Directors' fees and committee remuneration	-	-	-	-	-	-	-	-	-	426	409	409	57	1,301
Equity-settled share-based payments	-	-	-	-	-	-	-	-	-	180	180	180	-	540
Executive directors:														
Directors' fee and committee remuneration	-	-	-	-	-	-	-	-	208	-	-	-	-	208
Basic salaries and allowances	3,258	2,248	1,173	1,887	20	1,887	749	598	-	-	-	-	-	11,820
Bonuses	2,100	1,663	571	840	9	840	632	266	-	-	-	-	-	6,921
Equity-settled share-based payments	1,800	1,275	700	2,125	6	1,125	567	425	1,115	-	-	-	-	9,138
Retirement benefits scheme contributions	55	37	36	52	1	46	20	17	-	-	-	-	-	264
Total directors' emoluments	7,213	5,223	2,480	4,904	36	3,898	1,968	1,306	1,323	606	589	589	57	30,192
Year ended 31 December 2011														
Independent non-executive directors:														
Directors' fees and committee remuneration	-	-	-	-	-	-	-	-	-	374	360	360	-	1,094
Equity-settled share-based payments	-	-	-	-	-	-	-	-	-	367	367	367	-	1,101
Executive directors:														
Directors' fee and committee remuneration	-	-	-	-	-	-	-	-	200	-	-	-	-	200
Basic salaries and allowances	3,103	1,847	-	1,797	-	1,797	2,251	1,797	-	-	-	-	-	12,592
Bonuses	2,100	945	-	840	-	840	1,995	840	-	-	-	-	-	7,560
Equity-settled share-based payments	3,667	2,598	-	5,445	-	2,292	7,111	5,445	2,292	-	-	-	-	28,850
Retirement benefits scheme contributions	54	52	-	46	-	40	58	48	-	-	-	-	-	298
Total directors' emoluments	8,924	5,442	-	8,128	-	4,969	11,415	8,130	2,492	741	727	727	-	51,695

14. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

notes:

(i) Mr. Lu Shen was appointed as a director of the Company on 25 April 2012.

(ii) Mr. Xu Bo was appointed as a director of the Company on 28 December 2012.

(iii) Mr. Cai Yu Tian resigned as a director of the Company on 25 April 2012.

(iv) Mr. Qian Shi Zheng resigned as a director of the Company on 25 April 2012.

(v) Mr. Lu Ming Fang resigned as a director of the Company on 28 December 2012.

(vi) Mr. Cheng Hoi Chuen, Vincent was appointed as an independent non-executive director of the Company on 13 November 2012.

(vii) Mr. Zhou Jie, Mr. Lu Shen, Mr. Zhou Jun, Mr. Xu Bo and Mr. Qian Yi, who are the executive directors of the Company, are also the chief executives of the Company. Their emoluments including those for services rendered by them as the chief executives are also included in the above directors' emoluments tables for presentation.

(viii) Bonuses were determined with reference to the Group's operating results, individual performance and comparable market statistics.

(ix) In the two years ended 31 December 2012, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors has waived any emoluments during the two years.

(x) The five highest paid individuals of the Group for both years were all directors of the Company and details of their emoluments are set out above. For Mr. Lu Shen, his emoluments as an employee for the year before appointment as a director of the Company amounted to HK$1,582,485.

15. DIVIDENDS

	2012 HK$'000	2011 HK$'000
Dividends recognised as distribution during the year:		
2012 interim dividend of HK50 cents		
(2011: 2011 interim dividend of HK50 cents) per share	539,984	539,893
2011 final dividend of HK58 cents		
(2011: 2010 final dividend of HK58 cents) per share	626,381	626,275
	1,166,365	1,166,168

The final dividend of HK58 cents per share in respect of the year ended 31 December 2012 (2011: final dividend of HK58 cents per share in respect of the year ended 31 December 2011), amounting to approximately HK$626.9 million (2011: HK$626.4 million) in total, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2012 HK$'000	2011 HK$'000 (restated)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	3,438,210	4,022,575

	2012	2011
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,079,963,999	1,079,785,000
Effect of dilutive potential ordinary shares – share options of the Company	635,016	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,080,599,015	1,079,785,000

The computation of diluted earnings per share does not assume:

(i) the exercise of the Company's outstanding options if the exercise price of those options was higher than the average market price for the relevant period;

(ii) the exercise of options/warrants issued by SI Urban Development because they are anti-dilutive. The warrants lapsed during the current year as detailed in note 39; and

(iii) the exercise of options issued by SI Environment, which expired during the current year, because they are anti-dilutive.

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2011	8,283,343
Exchange adjustments	391,455
Subsequent expenditures	4,975
Transfer from inventories (note ii)	352,402
Additions	103,051
Disposals (note v)	(116,575)
Increase in fair value recognised in profit or loss	453,791
At 31 December 2011	9,472,442
Exchange adjustments	82,570
Subsequent expenditures	20,369
Transfer from inventories (note ii)	257,836
Transfer to assets classified as held for sale (note 12)	(301,593)
Additions	103,876
Disposals (note v)	(187,357)
Increase in fair value recognised in profit or loss	22,947
At 31 December 2012	9,471,090

note:

(i) The Group's investment properties are situated in the PRC and are held under medium-term land use rights.

(ii) During the year ended 31 December 2012, properties held for sale with a carrying amount of HK$257,836,000 (2011: HK$200,190,000) were transferred to investment properties as the management had changed the intended use of the properties, as evidenced by commencement of leases of these properties. The properties were fair-valued by DTZ Debenham Tie Leung Limited ("DTZ") at the date of transfer on the basis of net rental income captialisation. No fair value gain (2011: HK$152,212,000) was recognised directly in profit or loss.

(iii) All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

(iv) The property rental income earned by the Group from its investment properties which are either held for rental income under operating leases or for capital appreciation purpose, amounted to HK$563,080,000 (2011: HK$386,986,000) with negligible direct operating expenses.

(v) During the year ended 31 December 2012, the Group disposed of certain investment properties for cash proceeds of HK$187,357,000 (2011: HK$116,575,000).

(vi) The fair values of the Group's investment properties at 31 December 2012 and 31 December 2011 have been arrived at on the basis of valuations carried out on that date by DTZ, which is member of the Institute of Valuers. DTZ possesses appropriate qualifications and experience in the valuation of properties in the relevant locations. All of the Group's investment properties were valued by DTZ with reference to market evidence of transaction prices for similar properties in similar locations and conditions, or on the basis of net rental income capitalisation. In arriving at the valuation on the basis of capitalisation of net rental income from properties, the market rentals of the lettable units of the properties are assessed and capitalised at the market yield expected by investors for these types of properties. The capitalisation rate adopted is arrived at by reference to the yields achieved in analysed market sales transactions and the valuers' knowledge of the market expectation from property investors.

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For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT

	Hotel property HK$'000	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP							
COST							
At 1 January 2011	764,080	1,044,012	865,683	131,518	1,821,982	475,986	5,103,261
Exchange adjustments	26,098	34,144	25,686	6,021	18,800	17,145	127,894
Acquisition of SI Environment (note 44(II))	–	33,723	2,894	4,152	700	–	41,469
Additions	40,895	45,071	33,952	27,164	185,825	412,075	744,982
Transfers/reclassifications (note iii)	81,970	286,893	24,869	–	68,933	(364,612)	98,053
Reclassified as held for sale (note 12)	–	(74,610)	–	–	–	–	(74,610)
Disposals	(75)	(100,787)	(16,023)	(6,859)	(27,313)	–	(151,057)
Disposal of subsidiaries (note 45)	(543,176)	(1,804)	(159,541)	(4,255)	(280,163)	(5,285)	(994,224)
At 31 December 2011	369,792	1,266,642	777,520	157,741	1,788,764	535,309	4,895,768
Exchange adjustments	5,135	9,990	2,440	1,360	4,825	5,129	28,879
Acquisition of Nanfang Water (note 44(I))	–	934	4,536	9,246	3	–	14,719
Acquisition of other subsidiaries (note 44(III))	–	–	234	–	–	–	234
Additions	97	80,863	35,345	22,320	92,812	81,518	312,955
Transfers/reclassifications (note iii)	–	362,483	–	–	39,134	(154,945)	246,672
Disposals/written off	(23)	(22,115)	(25,584)	(14,300)	(44,399)	(10,408)	(116,829)
Disposal of subsidiaries (note 45)	–	–	(734)	(2,691)	–	–	(3,425)
At 31 December 2012	375,001	1,698,797	793,757	173,676	1,881,139	456,603	5,378,973
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 January 2011	219,639	284,565	405,486	60,421	1,129,194	–	2,099,305
Exchange adjustments	6,780	9,499	7,657	3,636	11,559	–	39,131
Provided for the year	39,719	50,772	47,729	30,349	101,320	–	269,889
Reclassified as held for sale (note 12)	–	(18,779)	–	–	–	–	(18,779)
Eliminated on disposals	(24)	(93,414)	(9,464)	(4,466)	(4,558)	–	(111,926)
Eliminated on disposal of subsidiaries (note 45)	(214,863)	(1,804)	(127,785)	(3,525)	(224,527)	–	(572,504)
At 31 December 2011	51,251	230,839	323,623	86,415	1,012,988	–	1,705,116
Exchange adjustments	1,252	1,921	1,234	1,490	3,597	–	9,494
Provided for the year	27,602	60,572	54,860	23,438	96,143	–	262,615
Eliminated on disposals/written off	(5)	(177)	(24,488)	(7,774)	(24,984)	–	(57,428)
Eliminated on disposal of subsidiaries (note 45)	–	–	(552)	(2,319)	–	–	(2,871)
At 31 December 2012	80,100	293,155	354,677	101,250	1,087,744	–	1,916,926
CARRYING VALUES							
At 31 December 2012	294,901	1,405,642	439,080	72,426	793,395	456,603	3,462,047
At 31 December 2011	318,541	1,035,803	453,897	71,326	775,776	535,309	3,190,652

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE COMPANY				
COST				
At 1 January 2011	2,803	24,316	6,655	33,774
Additions	–	235	–	235
At 31 December 2011	2,803	24,551	6,655	34,009
Additions	–	3,587	–	3,587
Written off	–	(20,279)	(335)	(20,614)
At 31 December 2012	2,803	7,859	6,320	16,982
DEPRECIATION				
At 1 January 2011	1,045	23,087	5,071	29,203
Provided for the year	112	532	765	1,409
At 31 December 2011	1,157	23,619	5,836	30,612
Provided for the year	112	877	638	1,627
Eliminated on written off	–	(20,274)	(335)	(20,609)
At 31 December 2012	1,269	4,222	6,139	11,630
CARRYING VALUES				
At 31 December 2012	1,534	3,637	181	5,352
At 31 December 2011	1,646	932	819	3,397

notes:

(i) The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Hotel property	Over the period of the lease term
Leasehold land and buildings	The shorter of 4%-5% or over the period of the lease term
Furniture, fixtures and equipment	10%-33$^1/_3$% or over the period of the lease in case of fixtures in rented premises
Motor vehicles	10%-30%
Plant and machinery	5%-20%

(ii) The carrying values of property interests comprise properties erected on land held under:

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Medium-term land use rights in the PRC	1,289,082	932,343	1,534	1,646
Medium-term leases in Hong Kong	411,461	422,001	–	–
	1,700,543	1,354,344	1,534	1,646

(iii) During the current year, the Group transferred properties held for sale of HK$246,672,000 (2011: HK$98,053,000) from inventories to property, plant and equipment.

19. PREPAID LEASE PAYMENTS

	31.12.2012 HK$'000	31.12.2011 HK$'000
The Group's prepaid lease payments comprise medium-term land use rights in the PRC	139,723	136,123
Analysed for reporting purposes as:		
Current portion	3,355	4,566
Non-current portion	136,368	131,557
	139,723	136,123

20. TOLL ROAD OPERATING RIGHTS

	HK$'000
COST	
At 1 January 2011	15,548,370
Exchange adjustments	713,855
At 31 December 2011	16,262,225
Exchange adjustments	145,632
At 31 December 2012	16,407,857
AMORTISATION	
At 1 January 2011	1,259,245
Exchange adjustments	81,475
Charged for the year	532,601
At 31 December 2011	1,873,321
Exchange adjustments	23,892
Charged for the year	610,895
At 31 December 2012	2,508,108
CARRYING VALUES	
At 31 December 2012	13,899,749
At 31 December 2011	14,388,904

notes:

(i) The toll road operating rights represent:

(a) the right to receive toll fees from vehicles using the Shanghai section of the Jing-Hu Expressway and to operate service facilities in designated areas along the Shanghai section for a period of 25 years ending in 2028;

(b) the right to receive toll fees from vehicles using the Shanghai section of the Hu-Kun Expressway and to operate service facilities in designated areas along the Shanghai section for a period of 30 years ending in 2030; and

(c) the right to receive toll fees from vehicles using the Shanghai section of Hu-Yu Expressway and to operate service facilities in designated areas along the Shanghai section for a period of 20 years ending in 2027.

(ii) The Group's rights to operate the toll roads are amortised on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the period for which the Group is granted the rights to operate the toll roads.

21. OTHER INTANGIBLE ASSETS

	Operating concessions HK$'000 (note i)	Premium on prepaid lease payments HK$'000 (note ii)	Trademark HK$'000 (note iii)	Total HK$'000
COST				
At 1 January 2011	448,219	63,982	60,423	572,624
Exchange adjustments	47,394	2,525	2,447	52,366
Acquisition of SI Environment (note 44(II))	585,259	–	–	585,259
Acquisition of other subsidiaries (note 44(III))	52,766	–	–	52,766
Reclassified as held for sale (note 12)	–	(66,507)	–	(66,507)
At 31 December 2011	1,133,638	–	62,870	1,196,508
Exchange adjustments	13,154	–	563	13,717
Acquisition of Nanfang Water (note 44(I))	145,165	–	–	145,165
Additions	158,221	–	–	158,221
Government grant (note 53)	(156,687)	–	–	(156,687)
Derecognition upon relocation of a water plant (note 53)	(72,105)	–	–	(72,105)
At 31 December 2012	1,221,386	–	63,433	1,284,819
AMORTISATION AND IMPAIRMENT				
At 1 January 2011	3,673	8,029	–	11,702
Exchange adjustments	2,128	547	–	2,675
Charged for the year	24,662	1,095	–	25,757
Reclassified as held for sale (note 12)	–	(9,671)	–	(9,671)
Impairment loss recognised	8,285	–	–	8,285
At 31 December 2011	38,748	–	–	38,748
Exchange adjustments	1,213	–	–	1,213
Charged for the year	47,005	–	–	47,005
Eliminated upon relocation of a water plant (note 53)	(75)	–	–	(75)
At 31 December 2012	86,891	–	–	86,891
CARRYING VALUES				
At 31 December 2012	1,134,495	–	63,433	1,197,928
At 31 December 2011	1,094,890	–	62,870	1,157,760

notes:

(i) Operating concessions represent the rights to operate sewage and water treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 50 years. Details of these operating concessions are set out in note 27.

(ii) Premium on prepaid lease payments represents the premium on acquisition of prepaid lease payments which is to be amortised over the period of the lease of the related prepaid lease payments on a straight-line basis.

21. OTHER INTANGIBLE ASSETS (Continued)

notes: (Continued)

(iii) The trademark has a legal life of 10 years from September 2011 to September 2021 and is renewable upon expiry. The directors of the Company are of the opinion that the Group will renew the trademark continuously and has the ability to do so at minimal cost. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash inflow for the Group.

As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing, trademark with indefinite useful lives set out above has been allocated to the individual cash generating unit ("CGU"), comprising one subsidiary in the real estate segment. For the year ended 31 December 2012, management of the Group has determined that there is no impairment (2011: Nil) of the CGU containing trademark by reference to the recoverable amount of the CGU, which has been determined based on a value in use calculation.

22. INVESTMENTS IN SUBSIDIARIES

	31.12.2012 HK$'000	31.12.2011 HK$'000
Unlisted shares, at cost	556,477	556,477

Details of the Company's principal subsidiaries are set out in note 54.

23. INTERESTS IN JOINTLY CONTROLLED ENTITIES/INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Cost of unlisted investments in jointly controlled entities	974,660	2,401,308	–	–
Share of post-acquisition profits and other comprehensive income, net of dividends received	806,386	763,407	–	–
	1,781,046	3,164,715	–	–
Less: Impairment loss recognised	–	(79,379)	–	–
	1,781,046	3,085,336	–	–
Interest in a jointly controlled entity classified as held for sale	–	(1,343,852)	–	–
	1,781,046	1,741,484	–	–

23. INTERESTS IN JOINTLY CONTROLLED ENTITIES/INVESTMENT IN A JOINTLY CONTROLLED ENTITY

notes:

(i) The summarised financial information in respect of the Group's interests in jointly controlled entities (excluding the jointly controlled entity classified as held for sale) which are accounted for using the equity method is set out below:

	THE GROUP	
	31.12.2012 HK$'000	31.12.2011 HK$'000
Current assets	1,683,779	1,437,929
Non-current assets	2,255,929	2,161,090
Current liabilities	(1,268,151)	(990,984)
Non-current liabilities	(896,220)	(870,643)

	Year ended 31.12.2012 HK$'000	Year ended 31.12.2011 HK$'000
Income recognised in profit or loss	1,808,100	1,572,684
Expenses recognised in profit or loss	1,750,875	1,494,395
Profit for the year	57,225	78,289
Group's share of results for the year	27,520	19,960
Other comprehensive (expense) income	(41,530)	164,569
Group's share of other comprehensive (expense) income for the year	(21,312)	78,373

(ii) The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

	THE GROUP	
	Year ended 31.12.2012 HK$'000	Year ended 31.12.2011 HK$'000
Unrecognised share of losses of jointly controlled entities for the year	307	11
Accumulated unrecognised share of losses of jointly controlled entities	5,709	27,896

(iii) Details of the Group's principal jointly controlled entities are set out in note 55.

24. INTERESTS IN ASSOCIATES

	31.12.2012 HK$'000	31.12.2011 HK$'000
Cost of unlisted investments in associates	1,736,827	1,739,089
Share of post-acquisition profits and other comprehensive income, net of dividends received	355,283	390,586
	2,092,110	2,129,675
Less: Impairment loss recognised	(50,418)	(66,853)
	2,041,692	2,062,822
Interest in an associate classified as held for sale	(74,923)	–
	1,966,769	2,062,822

notes:

(i) Included in the cost of investments is goodwill arising on their acquisition in prior years. Details of goodwill are set out below:

	HK$'000
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	3,370
IMPAIRMENT	
At 1 January 2011, 31 December 2011 and 31 December 2012	–
CARRYING VALUES	
At 1 January 2011, 31 December 2011 and 31 December 2012	3,370

(ii) The summarised financial information in respect of the Group's associates (excluding the associate classified as held for sale) is set out below:

	31.12.2012 HK$'000	31.12.2011 HK$'000
Total assets	10,196,242	10,287,170
Total liabilities	(5,319,940)	(5,086,391)
Net assets	4,876,302	5,200,779
Group's share of net assets	2,013,817	2,126,305

	Year ended 31.12.2012 HK$'000	Year ended 31.12.2011 HK$'000
Income recognised in profit or loss	651,406	955,487
Profit for the year	71,740	148,582
Group's share of results for the year	13,512	36,587
Other comprehensive income	97,064	127,386
Group's share of other comprehensive income for the year	18,911	54,986

(iii) Details of the Group's principal associates are set out in note 56.

25. AMOUNTS DUE FROM/TO SUBSIDIARIES

At the end of the reporting period, amounts due from subsidiaries were unsecured. Except for amounts of approximately HK$1,244 million and HK$435 million (31.12.2011: HK$1,233 million and HK$431 million) which carry fixed interest at 4.3% and 3% per annum (31.12.2011: fixed interest at 4.3% and 3% per annum) and are repayable in May 2014 and October 2013 (31.12.2011: May 2014 and October 2012), respectively, the other balances are non-interest bearing and repayable on demand.

At the end of the reporting period, amounts due to subsidiaries were unsecured. Except for an amount of HK$5,800 million (31.12.2011: HK$3,370 million) which carries interest at Hong Kong Interbank Offered Rate ("HIBOR") plus a spread, ranging from 1.03% to 2.00% (31.12.2011: 0.92% to 1.17%) per annum and is repayable in 2013 (31.12.2011: 2012), the balances are non-interest bearing and repayable on demand.

26. INVESTMENTS

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Available-for-sale investments				
Listed equity securities in				
– Hong Kong	128,580	119,771	–	–
– elsewhere	64,714	60,329	–	–
Unlisted equity securities in				
– Hong Kong (note ii)	5	5	–	–
– elsewhere (note ii)	766,838	445,381	59,270	99,697
Unlisted trust funds (note iii)	124,378	308,186	–	–
	1,084,515	933,672	59,270	99,697
Investments held-for-trading				
Listed equity securities in				
– Hong Kong	240,170	503,764	–	–
– elsewhere	12,887	14,638	–	–
	253,057	518,402	–	–
Financial assets designated as at FVTPL				
– Listed convertible notes	30,937	29,723	–	–
	1,368,509	1,481,797	59,270	99,697
Fair values of listed equity investments	446,351	698,502	–	–
Analysed for reporting purposes as:				
Current	408,372	856,311	–	–
Non-current	960,137	625,486	59,270	99,697
	1,368,509	1,481,797	59,270	99,697

26. INVESTMENTS (Continued)

notes:

(i) At the end of the reporting period, except for those unlisted equity investments, the fair values of which cannot be measured reliably, all available-for-sale investments and financial assets at FVTPL are stated at their fair values, which are determined by reference either to (a) bid prices quoted in active markets, or (b) prices provided by the respective issuing banks or financial institutions using valuation techniques.

(ii) The above investments in unlisted equity securities are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(iii) The trust funds invested in wide ranges of equity or debt investment products.

27. SERVICE CONCESSION ARRANGEMENTS

(I) Nature of arrangements

The Group engages in the businesses of sewage treatment and water supply in the PRC and has entered into a number of service concession arrangements with certain governmental authorities or their agencies in the PRC on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its businesses. These service concession arrangements generally involve the Group as an operator to (i) construct sewage and water treatment plants for those arrangements on a BOT basis; (ii) pay a specific amount for those arrangements on a TOT basis; (iii) operate and maintain the sewage and water treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 50 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through pricing mechanism.

The Group is generally entitled to operate all the property, plant and equipment of the sewage and water treatment plants, however, the relevant governmental authorities as grantors control and regulate the scope of services the Group is to provide to the sewage and water treatment plants, and retain the beneficial entitlement to any residual interest in the sewage and water treatment plants at the end of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities or their agencies in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the sewage and water treatment plants to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

27. SERVICE CONCESSION ARRANGEMENTS (Continued)

(I) Nature of arrangements (Continued)

At 31 December 2012, the Group had twenty-eight (31.12.2011: eighteen) service concession arrangements on sewage treatment and four (31.12.2011: four) service concession arrangements on water treatment and distribution. A summary of the major terms of the principal service concession arrangements is set out below:

Name of subsidiary as operator	Name of sewage and water treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity tons/day	Service concession period
東莞市大朗水口興寶水務有限公司	東莞市大朗污水處理廠	Dongguan, Guangdong Province, the PRC	東莞大朗鎮人民政府	BOT	100,000	25 years from 2009 to 2034
濰坊市自來水有限公司	濰坊市自來水	Weifang, Shandong Province, the PRC	濰坊市人民政府	BOT	320,000	25 years from 2007 to 2031
濰坊市聯合潤通污水處理有限公司	濰坊市高新產業開發區污水處理廠	Weifang, Shandong Province, the PRC	濰坊市人民政府	BOT	50,000	20 years from 2007 to 2027
聯合潤通水務股份有限公司	濰坊市污水處理廠	Weifang, Shandong Province, the PRC	濰坊市人民政府	TOT	100,000	20 years from 2004 to 2024
德州市聯合潤通水務有限公司	德州市污水處理廠	Dezhou, Shandong Province, the PRC	德州市人民政府	TOT	100,000	20 years from 2006 to 2026
武漢漢西污水處理有限公司	武漢漢西污水處理項目	Wuhan, Hubei Province, the PRC	武漢市人民政府	BOT	400,000	25 years from 2004 to 2029
黃石凱迪水務有限公司	湖北黃石污水處理項目	Huangshi, Hubei Province, the PRC	黃石市市政公用局	BOT	125,000	27 years from 2008 to 2035
武漢黃陂凱迪水務有限公司	武漢黃陂供水項目	Wuhan, Hubei Province, the PRC	武漢市黃陂區政府	BOT	150,000	30 years from 2008 to 2038
武漢新城污水處理有限公司	武漢新城污水處理項目	Wuhan, Hubei Province, the PRC	武漢經濟技術開發區管委會	BOT	60,000	20 years from 2004 to 2024
深圳市南方水務有限公司	深圳市福永污水處理廠	Shenzhen, Guangdong Province, the PRC	深圳市水務局	BOT	280,000	22 years from 2009 to 2031

27. SERVICE CONCESSION ARRANGEMENTS (Continued)

(II) Receivables under service concession arrangements

As explained in the accounting policy for "Service concession arrangements" set out in note 4, consideration given by the grantor for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under service concession arrangement) or a combination of both, as appropriate. The intangible asset component is detailed in note 21, and the financial asset component is as follows:

	31.12.2012 HK$'000	31.12.2011 HK$'000
Receivables under service concession arrangements	3,492,208	2,141,000
Less: current portion classified as current assets	(92,964)	(67,536)
Non-current portion	3,399,244	2,073,464

During the year, the Group recognised interest income of HK$148,408,000 (2011: HK$38,912,000) as other income and construction income of HK$131,873,000 (2011: HK$62,046,000) as revenue under the line item "income from infrastructure facilities" from service concession arrangements. The effective interest applied ranges from 5.76% to 13.00% (2011: 10.00% to 13.00%).

(III) Provision for major overhauls

Pursuant to the service concession agreements, the Group has contractual obligations to maintain the sewage and water treatment plants to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the sewage and water treatment plants, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for the major overhauls of sewage and water treatment plants during the year are as follows:

	HK$'000
At 1 January 2011	74,579
Exchange adjustments	3,365
Additional provision included in cost of sales	1,213
Utilisation	(5,110)
At 31 December 2011	74,047
Exchange adjustments	641
Additional provision included in cost of sales	8,739
Utilisation	(3,911)
At 31 December 2012	79,516

28. CONSIDERATION RECEIVABLES

	31.12.2012 HK$'000	31.12.2011 HK$'000
The consideration receivables are analysed for reporting purposes as:		
– non-current	–	582,384
– current (included in other receivables)	1,349,044	331,024
	1,349,044	913,408

notes:

(i) During the current year, the Group disposed of Feng Shun (see note 51(I)(j)) and pursuant to the sale and purchase agreement, the Group agreed to defer a portion of the consideration receivables to December 2013. Accordingly, such deferred cash consideration has been presented on the consolidated statement of financial position at their net present values determined using a discount rate of 6.65%.

(ii) During the year ended 31 December 2011, the Group disposed of Good Cheer and Feng Tao (see note 45(II)(ii)&(iii)) and the Group also agreed to defer a portion of the consideration receivables to June 2012 and December 2013, respectively. Such deferred cash considerations have been presented on the consolidated statement of financial position at their net present values determined using a discount rate of 6.6%.

29. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balance represents deposits paid by the Group in connection with the acquisition of property, plant and equipment for the Group's new production facilities.

The related capital commitments are disclosed in note 47.

30. RESTRICTED BANK DEPOSITS

These mainly represent certain deposits, the use of which by the Group is restricted as a result of a commercial court case brought by a non-controlling shareholder of a subsidiary. The restricted bank deposits carry interest at a fixed rate of 0.5% (31.12.2011: 0.5%) per annum.

31. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation	Amortisation of toll road operating rights	EIT on revaluation of properties	LAT on revaluation of investment properties	Tax losses	Fair value adjustments on business combinations	Undistributed earnings of PRC entities	EIT on fair value adjustments on properties under development/ properties held for sale	LAT on properties under development/ properties held for sale	Other deferred tax liabilities	Other deferred tax assets	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011, as originally stated	98,654	100,501	1,307,989	-	(22,293)	1,764,782	86,082	269,519	221,201	4,847	(8,351)	3,822,931
Effect of application of amendments to HKAS 12	-	-	(393,757)	1,398,210	-	-	-	-	-	-	-	1,004,453
At 1 January 2011, as restated	98,654	100,501	914,232	1,398,210	(22,293)	1,764,782	86,082	269,519	221,201	4,847	(8,351)	4,827,384
Exchange adjustments	4,727	9,497	29,008	63,070	(1,019)	66,843	3,658	8,366	9,696	988	(6,381)	188,453
Acquisition of SI Environment (note 44(II))	17,043	-	-	-	-	-	-	-	-	-	-	17,043
Acquisition of other subsidiaries (note 44(III))	-	-	-	-	-	-	-	-	-	23,858	-	23,858
Disposal of subsidiaries (note 45)	-	-	-	-	13,681	-	-	-	-	16	-	13,697
Charged (credited) to profit or loss	13,466	78,536	76,904	182,586	(20,177)	(17,545)	59,847	17,246	(11,921)	117,096	(308,820)	187,218
At 31 December 2011, as restated	133,890	188,534	1,020,144	1,643,866	(29,808)	1,814,080	149,587	295,131	218,976	146,805	(323,552)	5,257,653
Exchange adjustments	129	7,164	35,130	6,774	(326)	55,375	9	3,859	1,231	2,444	(1,462)	110,327
Acquisition of Nanfang Water (note 44(I))	-	-	-	-	-	97,685	-	-	-	16,693	(14,353)	100,025
Charged (credited) to profit or loss	6,046	69,715	9,940	(122,604)	23,726	(30,406)	143,596	5,675	(62,438)	(74,179)	(11,390)	(42,319)
At 31 December 2012	140,065	265,413	1,065,214	1,528,036	(6,408)	1,936,734	293,192	304,665	157,769	91,763	(350,757)	5,425,686

notes:

(i) For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)
Deferred tax liabilities	5,696,608	5,545,863
Deferred tax assets	(270,922)	(288,210)
	5,425,686	5,257,653

(ii) At the end of the reporting period, the Group had unused tax losses of approximately HK$3,318.0 million (31.12.2011: HK$2,749.9 million) available for offset against future assessable profits. A deferred tax asset amounting to approximately HK$6.4 million (31.12.2011: HK$29.8 million) in respect of tax losses amounting to approximately HK$25.6 million (31.12.2011: HK$122.7 million) has been recognised. No deferred tax asset was recognised in respect of the remaining tax losses of approximately HK$3,292.4 million (31.12.2011: HK$2,627.2 million) due to the unpredictability of future profit streams. The Hong Kong tax losses of approximately HK$16.6 million (31.12.2011: HK$16.6 million) may be carried forward indefinitely and the remaining PRC tax losses of approximately HK$3,301.4 million (31.12.2011: HK$2,733.3 million) will expire in various dates in the next five years.

31. DEFERRED TAXATION (Continued)

notes: (Continued)

(iii) Under the Law of the PRC on EIT, withholding tax is imposed on dividends declared in respect of profits earned by PRC entities from 1 January 2008 onwards. At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised was approximately HK$326 million (31.12.2011: HK$166 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

(iv) Other deferred tax liabilities mainly include deferred tax on fair value change of financial assets classified as held for trading. Other deferred tax assets include deferred tax on (a) impairment loss on bad and doubtful debts, (b) pre-operating expenses and (c) accrued expenses.

32. INVENTORIES

	31.12.2012 HK$'000	31.12.2011 HK$'000
Properties under development held for sale	40,373,822	41,217,015
Properties held for sale	9,405,137	12,011,581
Raw materials	1,032,452	759,847
Work in progress	83,332	59,521
Finished goods	120,050	124,537
Merchandise held for resale	6,799	3,603
	51,021,592	54,176,104

At 31 December 2012, included in the above balance were properties under development held for sale of HK$28,644,453,000 (31.12.2011: HK$25,333,995,000) which are not expected to be realised within one year.

33. TRADE AND OTHER RECEIVABLES

	31.12.2012 HK$'000	31.12.2011 HK$'000
Trade receivables	828,431	736,929
Less: allowance for doubtful debts	(2,151)	(61,159)
	826,280	675,770
Other receivables	5,504,364	3,974,095
Total trade and other receivables	6,330,644	4,649,865

33. TRADE AND OTHER RECEIVABLES (Continued)

notes:

(i) Before accepting any new customer, the Group assesses the potential customer's credit quality by investigating their historical credit records and defines credit limits by customer. Credit sales are made to customers with good credit history and credit limits granted to customers are under regular review. Majority of the trade receivables that are neither past-due nor impaired has no default payment history.

(ii) The Group generally allows credit periods ranging from 30 days to 180 days to its trade customers, other than property buyers. For property sales, due to the nature of business, the Group generally grants no credit period to property buyers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period.

	31.12.2012 HK$'000	31.12.2011 HK$'000
Within 30 days	282,414	294,326
Within 31-60 days	151,790	98,662
Within 61-90 days	150,817	86,388
Within 91-180 days	86,733	73,006
Within 181-365 days	102,537	105,122
Over 365 days	51,989	18,266
	826,280	675,770

(iii) Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$133,127,000 (31.12.2011: HK$103,067,000) which were past due at the reporting date but for which the Group has not provided for impairment loss because management is of the opinion that the amounts will be fully recoverable as there has not been any significant deterioration in credit quality of the debtors. The Group does not hold any collateral over these balances.

(iv) Ageing of trade receivables which were past due but not impaired

	31.12.2012 HK$'000	31.12.2011 HK$'000
31-60 days	56,561	5,152
61-90 days	19,158	4,122
91-180 days	11,200	69,504
181-365 days	36,240	23,080
Over 365 days	9,968	1,209
Total	133,127	103,067

33. TRADE AND OTHER RECEIVABLES (Continued)

notes: (Continued)

(v) Movements in the allowance for doubtful debts

	2012 HK$'000	2011 HK$'000
Balance at beginning of the year	61,159	6,682
Impairment losses recognised on receivables	2,632	65,514
Amounts written off as uncollectible	(27,953)	(147)
Amounts recovered during the year	(33,687)	(10,890)
Balance at end of the year	2,151	61,159

(vi) At 31 December 2012, included in other receivables were (a) consideration receivables (see note 28) of HK$1,349,044,000 (31.12.2011: HK$331,024,000), (b) amounts of HK$1,695,116,000 (31.12.2011: HK$1,576,958,000) due from certain associates and (c) amounts of HK$128,755,000 (31.12.2011: HK$122,681,000) due from entities controlled by State-owned Assets Supervision and Administration Commission of Shanghai Xuhui District ("Xuhui SASAC") (see note 51(I)(g)).

34. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	31.12.2012 HK$'000	31.12.2011 HK$'000
Contracts in progress in relation to construction of sewage and water treatment plants at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	896,190	961,068
Less: progress billings	866,226	986,828
	29,964	(25,760)
Analysed for reporting purposes as:		
Amounts due from contract customers	102,093	38,298
Amounts due to contract customers	(72,129)	(64,058)
	29,964	(25,760)

As at 31 December 2012, retentions held by customers for contract works amounted to HK$19,759,000 (31.12.2011: HK$6,124,000).

35. PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH

THE GROUP

(i) Bank deposits with maturity of less than six months of HK$447,838,000 (31.12.2011: HK$333,594,000) have been pledged to secure the Group's general banking facilities and are therefore classified as current assets. The pledged bank deposits carry interest at fixed interest rates ranging from 0.35% to 2.50% (31.12.2011: 0.0001% to 3.30%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

(ii) Short-term bank deposits with maturity of more than three months carry interest at a market rate of 1.49% (31.12.2011: 2.00% to 3.50%) per annum.

(iii) Bank balances with maturity of less than three months carry interest at market rates, ranging from 0.00% to 3.75% (31.12.2011: 0.00% to 2.00%) per annum.

(iv) The amounts of the Group's pledged bank deposits, short-term bank deposits and bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	THE GROUP	
	31.12.2012 HK$'000	31.12.2011 HK$'000
Renminbi	1,311,059	1,236,416
United States dollar	1,086,914	2,929,674
Hong Kong dollar	87,453	326

THE COMPANY

(i) Short-term bank deposits as at 31 December 2011 with maturity of more than three months carried interest at a market rate of 3.30% per annum.

(ii) Bank balances with maturity of less than three months carry interest at market rates, ranging from 0.00% to 3.15% (31.12.2011: 0.00% to 2.00%) per annum.

(iii) Included in bank balances and cash are amounts of HK$633,846,000 (31.12.2011: HK$2,467,876,000) denominated in United States dollar.

36. TRADE AND OTHER PAYABLES

	31.12.2012 HK$'000	31.12.2011 HK$'000
Trade payables (note i)	3,136,893	1,957,196
Consideration payables	316,041	389,487
Other payables (note ii)	8,306,306	10,010,230
Total trade and other payables	11,759,240	12,356,913

notes:

(i) The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	31.12.2012 HK$'000	31.12.2011 HK$'000
Within 30 days	1,155,794	639,021
Within 31-60 days	161,667	174,055
Within 61-90 days	81,527	9,198
Within 91-180 days	83,340	29,933
Within 181-365 days	817,710	682,343
Over 365 days	836,855	422,646
	3,136,893	1,957,196

(ii) Included in other payables as at 31 December 2012 were (a) amounts of HK$304,868,000 (31.12.2011: HK$359,289,000) due to Xuhui SASAC and entities controlled by Xuhui SASAC (see note 51(I)(g)), (b) amounts of HK$1,509,080,000 (31.12.2011: HK$1,463,007,000) due to certain fellow subsidiaries, which are unsecured and have no fixed terms of repayment, and except for HK$124,378,000 (31.12.2011: HK$123,274,000) carrying interest at a fixed rate of 4% (31.12.2011: 4%) per annum, the remaining balance is non-interest bearing, (c) aggregate consideration received in advance for disposal of assets classified as held for sale/disposal group held for sale (see note 12) of HK$218,734,000 (31.12.2011: HK$965,865,000) and (d) accrued expenditure on properties under development of HK$2,128,597,000 (31.12.2011: HK$2,742,091,000).

37. CUSTOMER DEPOSITS FROM SALES OF PROPERTIES

These represent proceeds received on property sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy. An amount of approximately HK$4,545 million (31.12.2011: HK$3,494 million) is expected to be recognised as revenue after more than one year.

38. CONVERTIBLE NOTES

The balance as at 1 January 2011 represented the zero couple convertible notes issued by SI Urban Development on 12 June 2006 ("CN 2011") which, unless previously converted or redeemed, were to be redeemed by the Group at 135.7% of the principal amount (the "Redemption Price") on 11 May 2011.

In May 2011, the Group redeemed all the outstanding CN 2011 with a principal sum of HK$2,000,000 at the Redemption Price. The payment for the redemption amounted to HK$2,714,000.

39. SENIOR NOTES/WARRANTS

On 23 July 2007, SI Urban Development issued 4,000 units of senior notes at a par value of US$400,000,000 (equivalent to HK$3,120,000,000) ("Senior Notes 2014") and 264,000,000 warrants ("Warrants 2012"). The Senior Notes 2014 bear interest at 9.75% and will mature on 23 July 2014 ("Notes Maturity Date"). The Senior Notes 2014 are guaranteed by all of SI Urban Development's existing subsidiaries at the date of issue and at any time in future other than those established under the laws of the PRC.

The Senior Notes 2014 and Warrants 2012 were separated immediately upon their issuance and the Warrants 2012 were detachable from the Senior Notes 2014.

As at 31 December 2011, 66,000,000 Warrants 2012 were outstanding. Exercise in full of the outstanding Warrants 2012 as at 31 December 2011 would have resulted in the issue of 66,000,000 additional shares of SI Urban Development with an aggregate subscription value of HK$443,520,000. No Warrants 2012 were exercised by the holders during the year and they lapsed upon maturity on 23 July 2012.

The fair value of Warrants 2012 as at 31 December 2011 was HK$3,000 and therefore, a change in fair value of HK$3,000 (2011: HK$16,597,000) was credited to profit or loss for the year. The fair value of Warrants 2012 was calculated using option pricing models.

Other than the liability element and Warrants 2012, Senior Notes 2014 also contain a redemption right granted to SI Urban Development. The redemption right is separately accounted for at fair value at the end of the reporting period as a derivative financial instrument and its fair value was insignificant as at 31 December 2011 and 2012.

The effective interest rate of the liability element was 8.87%.

40. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Bank loans	27,845,118	29,447,785	1,243,781	1,663,134
Other loans	4,986,560	3,424,120	–	–
	32,831,678	32,871,905	1,243,781	1,663,134
Analysed as:				
Secured	12,998,479	11,719,288	–	–
Unsecured	19,833,199	21,152,617	1,243,781	1,663,134
	32,831,678	32,871,905	1,243,781	1,663,134

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Carrying amount repayable:				
Within one year	10,718,828	14,929,558	–	430,392
More than one year but not more than two years	9,712,185	5,220,836	1,243,781	–
More than two years but not more than five years	8,938,735	11,308,999	–	1,232,742
Over five years	3,461,930	1,412,512	–	–
	32,831,678	32,871,905	1,243,781	1,663,134
Less: amounts due within one year shown under current liabilities	(10,718,828)	(14,929,558)	–	(430,392)
	22,112,850	17,942,347	1,243,781	1,232,742

40. BANK AND OTHER BORROWINGS (Continued)

notes:

(i) The exposure of the Group's and the Company's fixed-rate borrowings and the contractual maturity dates are as follows:

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Fixed-rate borrowings:				
Within one year	2,711,749	430,392	–	430,392
More than one year but not more than two years	1,760,187	494,206	1,243,781	–
More than two years but not more than three years	490,050	1,232,742	–	1,232,742
More than three years but not more than four years	12,438	–	–	–
More than four years but not more than five years	12,438	–	–	–
	4,986,862	2,157,340	1,243,781	1,663,134

(ii) The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's and the Company's borrowings are as follows:

	THE GROUP		THE COMPANY	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Effective interest rate:				
Fixed-rate borrowings	2.20% to 12.00%	2.20% to 12.70%	2.20%	2.20% to 3.00%
Variable-rate borrowings	1.31% to 8.30%	0.99% to 9.10%	N/A	N/A

40. BANK AND OTHER BORROWINGS (Continued)

notes: (Continued)

(iii) Included in the Group's bank borrowings is an amount of HK$5,200 million (31.12.2011: HK$10,770 million) drawn under syndicated loan facilities of HK$5,200 million (31.12.2011: HK$10,770 million) obtained by the Group. Transaction costs of approximately HK$33 million (31.12.2011: HK$66 million) which were directly attributable to such bank borrowings were deducted from the fair values of the bank borrowings on initial recognition. At 31 December 2012, the carrying value of such bank borrowings was approximately HK$5,183 million (31.12.2011: HK$10,730 million).

(iv) Included in other loans is an advanced bond (the "Bond") of HK$1,835,545,000 (31.12.2011: Nil) issued by a non-wholly owned subsidiary of the Group in the PRC in August 2012 and is listed on Shanghai Stock Exchange. The Bond is unsecured and has a maturity of six years until 20 August 2018. The Bond carries interest at rates of 6.5% per annum for the first three years, and 6.5% per annum plus 0 to 100 basis point for the next three years. The bondholders have the right to redeem the bonds from the fourth year onwards at principal amount. Transaction costs of HK$33,194,000 were directly deducted from the carrying amount of the Bond on initial recognition and the effective interest rate applied to the Bond is 7.19% per annum.

(v) Certain bank facilities granted to the Group include requirements that (a) SIIC retains management control over the Company and holds not less than 35% of the Company's voting capital and (b) SIIC remains under the control of the Shanghai Municipal People's Government.

(vi) Prior to 31 December 2011, the Group used interest rate swaps to hedge against its cash flow interest rate risk of its variable-rate borrowings. During the year ended 31 December 2011, the interest rate swaps were early terminated and a loss of HK$8,254,000 thereon was charged to profit or loss.

41. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
– at 1 January 2011, 31 December 2011 and 31 December 2012	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
– at 1 January 2011 and 31 December 2011	1,079,785,000	107,979
– exercise of share options	464,000	46
– at 31 December 2012	1,080,249,000	108,025

During the year ended 31 December 2012, the Company issued 464,000 shares to the option holders who exercised their share options at an exercise price of HK$22.71 under the SIHL Scheme (defined in note 42). These new shares rank pari passu in all respects with other shares in issue.

42. SHARE-BASED PAYMENT TRANSACTIONS

Details of the equity-settled share option schemes adopted by the Company and other members of the Group are as follows:

(I) SIHL Scheme

(a) The principal terms of the SIHL Scheme are set out below.

The Company, in accordance with Chapter 17 of the Listing Rules, adopted a share option scheme (the "SIHL Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 31 May 2002. The SIHL Scheme was valid and effective for a period of 10 years commencing the date of its adoption and terminated on 25 May 2012. The SIHL Scheme was to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as the board of directors (the "Board") may approve from time to time.

According to the SIHL Scheme, the Board of the Company could grant options to any director or employee of each member of the Group (including a company in which (i) the Company was directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board of the Company, the Company was able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the Group who had rendered service or would render service to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Share options granted were to be accepted within 30 days from the date of grant.

The Board of the Company could at its absolute discretion, determine and notify each grantee the period during which a share option could be exercised, such period were to expire not later than 10 years from the date of grant of the share options. Subject to the provisions of the SIHL Scheme, the Board of the Company could at its discretion when offering the grant of a share option impose any conditions, restrictions or limitations in relation thereto as it may think fit.

The subscription price for shares in the Company were to be a price solely determined by the Board of the Company and notified to an eligible participant, and were to be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

The total number of shares which could be issued upon exercise of all options to be granted under the SIHL Scheme and any other share option schemes of the Company was not in aggregate to exceed 10% of the total number of shares of the Company in issue as at the date of approval of the SIHL Scheme. The maximum number of shares which could be issued upon exercise of all outstanding options granted and yet to be exercised under the SIHL Scheme and any other share option schemes of the Company was not to exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant under the SIHL Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period was not to exceed 1% of the total number of shares in issue unless approved by the shareholders of the Company.

42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(I) SIHL Scheme (Continued)

(b) As at 31 December 2012, the number of shares in respect of which options were granted and which remained outstanding was 46,457,200 (31.12.2011: 45,950,000), representing 4.3% (31.12.2011: 4.3%) of the shares of the Company in issue at that date.

The following table discloses movements of the Company's options under the SIHL Scheme held by the Group's employees and other eligible participants during the year:

Month of grant	Exercise price per share HK$	Outstanding at 1.1.2011	Granted during the year	Cancelled during the year	Outstanding at 31.12.2011	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2012
November 2010	36.60	25,880,000	–	(530,000)	25,350,000	–	–	(80,000)	25,270,000
September 2011	22.71	–	20,600,000	–	20,600,000	–	(464,000)	(92,800)	20,043,200
May 2012	23.69	–	–	–	–	1,144,000	–	–	1,144,000
		25,880,000	20,600,000	(530,000)	45,950,000	1,144,000	(464,000)	(172,800)	46,457,200
Exercisable at the end of the year					25,820,000				39,590,800

Details of the share options held by the directors of the Company included in the above table are as follows:

Month of grant	Exercise price per share HK$	Outstanding at 1.1.2011	Granted during the year	Outstanding at 31.12.2011	Reclassified during the year	Outstanding at 31.12.2012
November 2010	36.60	6,410,000	–	6,410,000	(1,750,000)	4,660,000
September 2011	22.71	–	5,128,000	5,128,000	(1,400,000)	3,728,000
May 2012	23.69	–	–	–	600,000	600,000
		6,410,000	5,128,000	11,538,000	(2,550,000)	8,988,000
Exercisable at the end of the year				6,538,200		7,509,600

Share options granted in November 2010 are exercisable during the period from 3 November 2010 to 2 November 2015 in three batches, being:

- 3 November 2010 to 2 November 2011 (up to 40% of the share options granted are exercisable)
- 3 November 2011 to 2 November 2012 (up to 70% of the share options granted are exercisable)
- 3 November 2012 to 2 November 2015 (all share options granted are exercisable)

42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(I) SIHL Scheme (Continued)

(b) (Continued)

Share options granted in September 2011 are exercisable during the period from 21 September 2011 to 20 September 2016 in three batches, being:

- 21 September 2011 to 20 September 2012 (up to 40% of the share options granted are exercisable)
- 21 September 2012 to 20 September 2013 (up to 70% of the share options granted are exercisable)
- 21 September 2013 to 20 September 2016 (all share options granted are exercisable)

Share options granted in May 2012 are exercisable during the period from 17 May 2012 to 16 May 2017 in three batches, being:

- 17 May 2012 to 16 May 2013 (up to 40% of the share options granted are exercisable)
- 17 May 2013 to 16 May 2014 (up to 70% of the share options granted are exercisable)
- 17 May 2014 to 16 May 2017 (all share options granted are exercisable)

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$27.37 (2011: N/A). Total consideration received for shares issued upon exercise of share options, net of direct issue costs of HK$12,000, was HK$10,525,000.

(c) On 16 May 2012, 1,144,000 options were granted and the estimated fair value of the options granted is HK$1,935,000. During the year ended 31 December 2011, 20,600,000 options were granted on 20 September 2011 and the estimated fair value of the options granted is HK$50,285,000.

The fair value was calculated using the Black-Scholes option pricing model with the following inputs:

	2012	2011
Weighted average share price	HK$22.60	HK$22.05
Exercise price	HK$23.69	HK$22.71
Expected volatility	28.309% to 33.941%	31.714% to 39.404%
Expected life	0.5 to 2.5 years	0.5 to 2.5 years
Risk-free rate	0.140% to 0.255%	0.110% to 0.205%
Expected dividend yield	4.8%	4.9%

The variables and assumptions used in the Black-Scholes option pricing model in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(I) SIHL Scheme (Continued)

(c) (Continued)

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 0.5 to 2.5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The number of share options granted and which are expected to vest has been reduced to reflect historical forfeiture rate of 20% to 30% prior to completion of vesting period and accordingly the share-based payment expense has been adjusted. At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

(d) The Group recognised an expense of HK$39,831,000 (2011: HK$79,047,000) for the year in relation to the share options granted with reference to the respective vesting periods, of which HK$23,393,000 (2011: HK$42,146,000) was related to options granted to the Group's employees and shown as employee benefits expense, and the remaining balance represents share-based payment expense for eligible participants other than employees.

(II) SIHL New Scheme

The principal terms of the SIHL New Scheme are set out below.

The Company, in accordance with Chapter 17 of the Listing Rules, adopted a share option scheme (the "SIHL New Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 25 May 2012. The SIHL New Scheme shall be valid and effective for a period of 10 years commencing the date of its adoption, after which period no further share options will be granted. The SIHL New Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as the Board may approve from time to time.

According to the SIHL New Scheme, the Board of the Company may grant options to any director or employee of each member of the Group (including a company in which (i) the Company is directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board of the Company, the Company is able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the Group who have rendered service or will render service to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Share options granted should be accepted within 30 days from the date of grant.

42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(II) SIHL New Scheme (Continued)

The Board of the Company may at its absolute discretion, determine and notify each grantee the period during which a share option may be exercised, such period should expire not later than 10 years from the date of grant of the share options. Subject to the provisions of the SIHL New Scheme, the Board of the Company may at its discretion when offering the grant of a share option impose any conditions, restrictions or limitations in relation thereto as it may think fit.

The subscription price for shares in the Company shall be a price solely determined by the Board of the Company and notified to an eligible participant, and shall be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the SIHL New Scheme and any other share option schemes of the Company shall not in aggregate to exceed 10% of the total number of shares of the Company in issue as at the date of approval of the SIHL New Scheme. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SIHL New Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant under the SIHL New Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue unless approved by the shareholders of the Company.

During the year, no options were granted under the SIHL New Scheme.

(III) SI Urban Development Scheme

(a) The principal terms of the SI Urban Development Scheme are set out below.

A listed subsidiary of the Company, SI Urban Development, operates a share option scheme (the "SI Urban Development Scheme") which was first adopted on 12 December 2002 in a special general meeting of SI Urban Development. Under the SI Urban Development Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SI Urban Development Scheme and options granted and yet to be exercised under any other schemes shall not exceed 30% of the issued share capital of SI Urban Development from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the issued share capital of SI Urban Development at any time.

The offer of a grant of options may be accepted within 21 days from the date of the offer with signed acceptance letter comprising consideration of HK$1 received by SI Urban Development. The exercise period of the share options granted is determinable by the directors of SI Urban Development, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors of SI Urban Development, but in any case must be the highest of (i) the closing price of SI Urban Development's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of SI Urban Development's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of SI Urban Development's shares.

42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(III) SI Urban Development Scheme (Continued)

(b) As at 31 December 2012, the number of shares of SI Urban Development in respect of which options were granted and which remained outstanding was 60,750,000 (31.12.2011: 91,000,000), representing 1.3% (31.12.2011: 1.9%) of the shares of SI Urban Development in issue at that date.

The following table discloses movements of share options granted during the year:

Grantees	Month of grant	Exercised price per share HK$	Outstanding at 1.1.2011	Cancelled during the year	Outstanding at 31.12.2011	Cancelled during the year	Outstanding at 31.12.2012
Directors of SI Urban Development, who are also directors of SIHL	September 2010	2.98	23,000,000	–	23,000,000	(16,000,000)	7,000,000
Other directors of SI Urban Development	September 2010	2.98	33,000,000	–	33,000,000	(7,000,000)	26,000,000
Employees of SI Urban Development	September 2010	2.98	55,500,000	(20,500,000)	35,000,000	(7,250,000)	27,750,000
			111,500,000	(20,500,000)	91,000,000	(30,250,000)	60,750,000
Exercisable at the end of the year					63,700,000		60,750,000

Share options granted in September 2010 are exercisable during the period from 24 September 2010 to 23 September 2020 in three batches, being:

- 24 September 2010 to 23 September 2011 (up to 40% of the share options granted are exercisable)
- 24 September 2011 to 23 September 2012 (up to 70% of the share options granted are exercisable)
- 24 September 2012 to 23 September 2020 (all share options granted are exercisable)

(c) The Group recognised an expense of HK$8,674,000 (2011: HK$40,998,000) for the year in relation to share options granted with reference to the respective vesting periods, of which HK$3,962,000 (2011: HK$10,363,000) was related to options granted to the directors of SI Urban Development who are also directors SIHL and the remaining balance represents share-based payment expense for other SI Urban Development directors and SI Urban Development's employees and was included in employee benefits expense.

42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(IV) SI Environment Scheme

(a) The principal terms of the SI Environment Scheme are set out below.

SI Environment, a listed subsidiary of the Company, also operated a share option scheme (the "SI Environment Scheme", previously known as "Asia Water Scheme") which was first adopted on 24 January 2005 in a general meeting of SI Environment. The SI Environment Scheme was terminated by the shareholders of SI Environment on 27 April 2012. The aggregate nominal amount of shares which were to be issued and issuable in respect of all options granted under the SI Environment Scheme, was not to exceed 15% of the issued share capital of SI Environment (excluding treasury shares) from time to time.

Under the SI Environment Scheme, the aggregate number of shares in relation to the grant of options that were available to the controlling shareholders or their associates was not to exceed 25% of the total number of shares which were to be granted under the SI Environment Scheme. The number of shares available to any one controlling shareholder or his/her associate(s) was not to exceed 10% of the total number of shares which were to be granted under the SI Environment Scheme.

Under the SI Environment Scheme, SI Environment could grant options: (i) at a price which is equal to the average of the last dealt prices for the share, as determined by reference of the daily official list or any other publication published by the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the five consecutive trading days immediately preceding the date of grant ("Market Price"); and/or (ii) at a discount of not more than 20% to the Market Price at the time of grant.

The offer of the grant of an option was to be accepted by the grantee within 30 days from the date of offer of that option and, in any event, not later than 5:00 p.m. on the 30th day from such date of offer by completing, signing and returning the acceptance form accompanied by payment of S$1.00 as consideration. The exercise period of the share options granted was determinable by the remuneration committee of SI Environment. Options granted with exercise price set at Market Price were only to be exercisable, in whole or in part, after the 1st anniversary of the date of offer while options granted with exercise price set at a discount to Market Price were only to be exercisable, in whole or in part, after the 2nd anniversary of the date of offer, provided always that the options could be exercised before the 10th anniversary of the relevant date of grant. Options granted to non-executive directors and employees of the associated companies could be exercised before the 5th anniversary of the relevant date of offer.

42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(IV) SI Environment Scheme (Continued)

(b) The following table discloses movements of share options granted during the year:

Grantees	Month of grant	Exercise price per share S$	Outstanding at 1.1.2011	Cancelled during the year	Outstanding at 31.12.2011	Cancelled during the year	Expired during the year	Outstanding at 31.12.2012
Directors of SI Environment	August 2007	0.09 (note)	-	-	-	-	-	-
Employees of SI Environment	August 2007	0.09 (note)	19,356,083 (note)	(2,318,616)	17,037,467	(761,442)	(16,276,025)	-
			19,356,083 (note)	(2,318,616)	17,037,467	(761,442)	(16,276,025)	-
Exercisable at the end of the year					17,037,467			-

note: Pursuant to the adjustments made in accordance with the terms of the SI Environment Scheme, the aggregate number of the outstanding options and corresponding exercise price were adjusted in 2010.

The share options were exercisable during the period from 14 August 2008 to 13 August 2012 and they expired on 13 August 2012.

(V) SI Environment New Scheme

The principal terms of the SI Environment New Scheme are set out below.

SI Environment operated a share option scheme (the "SI Environment New Scheme"), which was adopted on 27 April 2012 in an extraordinary general meeting of SI Environment. The SI Environment New Scheme shall be valid and effective for a period of 5 years commencing the date of its adoption, after which period no further share options will be granted. The aggregate nominal amount of shares which may be issued and issuable in respect of all options granted under the SI Environment New Scheme, shall not exceed 15% of the issued share capital of SI Environment (excluding treasury shares) from time to time.

Under the SI Environment New Scheme, the aggregate number of shares in relation to the grant of options that are available to the controlling shareholders or their associates shall not exceed 25% of the total number of shares which may be granted under the SI Environment New Scheme. The number of shares available to any one controlling shareholder or his/her associate(s) shall not exceed 10% of the total number of shares which may be granted under the SI Environment New Scheme.

Under the SI Environment New Scheme, SI Environment can grant options at a price which is equal to the average of the last dealt prices for the share, as determined by reference of the daily official list or any other publication published by the SGX-ST for the three consecutive trading days immediately preceding the date of grant ("Price"). Options will not be granted at a discount to the Price.

The offer of the grant of an option is to be accepted by the grantee within 30 days from the date of offer of that option and, in any event, not later than 5:00 p.m. on the 30th day from such date of offer by completing, signing and returning the acceptance form accompanied by payment of S$1.00 as consideration. The exercise period of the share options granted is determinable by the remuneration committee of SI Environment. Options granted with exercise price set at Price are only to be exercisable, in whole or in part, after the 1st anniversary of the date of offer. Options granted to non-executive directors and employees of the associated companies can be exercised before the 5th anniversary of the relevant date of offer.

During the year, no options were granted under the SI Environment New Scheme.

43. SHARE PREMIUM AND RESERVES

	Share premium HK$'000	Share options reserve HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE COMPANY						
At 1 January 2011	13,345,715	44,341	1,071	1,137,728	10,759,012	25,287,867
Profit for the year	–	–	–	–	801,513	801,513
Recognition of equity-settled share-based payments	–	79,047	–	–	–	79,047
Dividends paid (note 15)	–	–	–	–	(1,166,168)	(1,166,168)
At 31 December 2011	13,345,715	123,388	1,071	1,137,728	10,394,357	25,002,259
Profit for the year	–	–	–	–	2,479,840	2,479,840
Issue of shares upon exercise of share options	11,337	(858)	–	–	–	10,479
Recognition of equity-settled share-based payments	–	39,831	–	–	–	39,831
Dividends paid (note 15)	–	–	–	–	(1,166,365)	(1,166,365)
At 31 December 2012	13,357,052	162,361	1,071	1,137,728	11,707,832	26,366,044

notes:

(i) The Company's reserve available for distribution to shareholders as at 31 December 2012 represents its retained profits of approximately HK$11,708 million (31.12.2011: HK$10,394 million).

(ii) The Company's capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong was not realised profits and is an undistributable reserve.

44. ACQUISITION OF SUBSIDIARIES/BUSINESSES

(I) Acquisition of Nanfang Water during the year ended 31 December 2012

On 23 July 2012, SI Environment completed its acquisition of an indirect 69.378% equity interest in Nanfang Water Co., Ltd. ("Nanfang Water") which, together with its subsidiaries and an associate, are principally engaged in the business of environment protection in the PRC, including waste water and tap water treatments. The consideration for the acquisition is HK$423,719,000 which includes (a) cash of RMB218.3 million (equivalent to approximately HK$266.0 million), (b) 433,626,615 ordinary shares in SI Environment, the fair value of which at the date of acquisition amounted to HK$127,829,000 and (c) the fair value of the earn-out amounts for each of the three years ended 31 December 2014 if Nanfang Water achieves the agreed financial targets for the corresponding year. The maximum earn-out amount to be paid amounts to RMB45 million (equivalent to approximately HK$55 million) and will be settled by way of issuance of new ordinary shares in SI Environment.

44. ACQUISITION OF SUBSIDIARIES/BUSINESSES (Continued)

(I) Acquisition of Nanfang Water during the year ended 31 December 2012 (Continued)

	notes	HK$'000
Consideration transferred		
Cash		266,025
Deferred share consideration	(i)	127,829
Contingent consideration	(ii)	29,865
		423,719
Assets acquired and liabilities recognised at the date of acquisition are as follows		
Property, plant and equipment		14,719
Operating concessions	(iii)	145,165
Interest in an associate		2,325
Investments		2,922
Receivables under service concession arrangements	(iii)	1,292,460
Deferred tax assets		14,353
Inventories		5,540
Trade and other receivables		351,182
Amounts due from customers for contract work		17,947
Bank balances and cash		50,668
Trade and other payables		(302,079)
Taxation payable		(6,251)
Bank and other borrowings		(799,727)
Deferred tax liabilities		(114,378)
		674,846
Goodwill on acquisition		
Consideration		423,719
Plus: non-controlling interests	(iv)	251,127
Less: net assets acquired		(674,846)
		–
Net cash outflow arising on acquisition		
Cash consideration paid		266,025
Less: bank balances and cash acquired		(50,668)
		215,357

44. ACQUISITION OF SUBSIDIARIES/BUSINESSES (Continued)

(I) Acquisition of Nanfang Water during the year ended 31 December 2012 (Continued)

notes:

(i) The deferred share consideration was settled in new ordinary shares in SI Environment in February 2013.

(ii) The contingent consideration represents the fair value of the earn-out amount as described above, which is determined based on the Black-Scholes Pricing Model. The contingent consideration will be settled by shares in SI Environment when the Group is obliged to pay.

(iii) These amounts are related to nine service concession arrangements with certain governmental authorities in the PRC to operate sewage and water treatment plans in the PRC with remaining service concession periods of 22 to 31 years. The effective interest rate applied ranges from 5.94% to 7.83% per annum.

(iv) The non-controlling interests of 30.622% in Nanfang Water recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets of Nanfang Water at that date.

(v) Included in the profit for the year is HK$43,232,000 attributable to the additional business generated by Nanfang Water. Revenue for the year includes HK$100,363,000 generated from Nanfang Water.

Had the acquisition been completed on 1 January 2012, the Group's revenue for the year would have been approximately HK$19,401 million, and profit for the year would have been approximately HK$4,379 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results. In the preparation of the pro forma information, the directors of the Company have not taken up into account the fair value adjustments arising upon acquisition by the Group as the effects are considered not significant.

(II) Acquisition of SI Environment during the year ended 31 December 2011

On 28 March 2011, the Group and the joint venture partner of SI Environment, a then 36.6% owned jointly controlled entity of the Group since February 2010, entered into certain agreements. Pursuant to the agreements, (i) the Group waived an amount due from a jointly controlled entity of approximately HK$411 million which was used to finance the acquisition of equity interest in SI Environment from independent third parties in February 2010; and (ii) the Group's effective equity interest in SI Environment increased from 36.6% to 52.86%. SI Environment then became a non-wholly owned subsidiary of the Group.

44. ACQUISITION OF SUBSIDIARIES/BUSINESSES (Continued)

(II) Acquisition of SI Environment during the year ended 31 December 2011 (Continued)

	notes	HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows		
Property, plant and equipment		41,469
Prepaid lease payments		11,172
Operating concessions	(i)	585,259
Interests in associates		47,214
Receivables under service concession arrangements	(i)	441,881
Amounts due from customers for contract work		26,926
Deposit paid on acquisition of an associate		61,838
Restricted bank deposits		1,716
Deferred tax assets		970
Inventories		9,339
Trade and other receivables		273,079
Bank balances and cash		696,802
Assets classified as held for sale		13,693
Trade and other payables		(389,164)
Amounts due to customers for contract work		(41,275)
Taxation payable		(6,376)
Bank and other borrowings		(708,395)
Liabilities associated with assets classified as held for sale		(3,203)
Deferred tax liabilities		(18,013)
		1,044,932
Gain from bargain purchase		
Waiver of an amount due from a jointly controlled entity		411,030
Share of post-acquisition profits of SI Environment		77,001
		488,031
Plus: non-controlling interests	(ii)	519,183
Less: recognised amount of identifiable net assets acquired		(1,044,932)
Gain from bargain purchase	(iii)	(37,718)
Net cash inflow arising on acquisition		
Cash and cash equivalent balances acquired		696,802

44. ACQUISITION OF SUBSIDIARIES/BUSINESSES (Continued)

(II) Acquisition of SI Environment during the year ended 31 December 2011 (Continued)

notes:

(i) These amounts are related to nine service concession arrangements with certain governmental authorities in the PRC to operate sewage and water treatment plans in the PRC with remaining service concession periods of 11.5 to 46.5 years. The effective interest rate applied ranges from 10% to 13% per annum.

(ii) The non-controlling interests of 47.14% in SI Environment recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets of SI Environment.

(iii) The introduction of the Company as the new controlling shareholder of SI Environment was expected to strengthen its capital base, meet its working capital requirements and facilitate its future business development and expansion. In the opinion of the directors of the Company, the above are the key factors leading to the recognition of the above gain of HK$37,718,000.

(III) Acquisition of other subsidiaries

For the year ended 31 December 2012

On 29 June 2012, the Group acquired 100% equity interest in深圳永發印藝包裝設計有限公司 ("Shenzhen Wing Fat") from an independent third party at a consideration of RMB947,000 (equivalent to HK$1,156,000) for the expansion of its business. Shenzhen Wing Fat is engaged in packaging design in the PRC.

In addition, on 18 December 2012, the Group acquired 100% shareholding of Hong Kong Shun Yuen Investment (Holdings) Limited ("Shun Yuen") from an independent third party at a consideration of HK$10,000 for the expansion of its business. Shun Yuen directly owns 16.8% interest in an available-for-sale investment which is engaged in the water-related business in the PRC.

For the year ended 31 December 2011

On 3 July 2011, SI Environment acquired 100% equity interest in Lap Yin International Limited ("Lap Yin") from an independent third party satisfied by (i) a cash of S$16,186,697 (equivalent to HK$94,275,000) and 98,578,821 ordinary shares of SI Environment for the expansion of its business. Lap Yin indirectly owns 50% equity interest in a jointly controlled entity, which is engaged in the business of waste incineration power generation in the PRC.

In addition, on 29 November 2011, SI Environment acquired an additional 37% equity interest in a 43% held associate, Wuhan Hanxi Waste Water Treatment Co., Ltd. ("Wuhan Hanxi"), for total cash consideration of RMB51.4 million (equivalent to approximately HK$63.0 million) for the expansion of its business. Upon completion of the transaction, Wuhan Hanxi became a 80% owned subsidiary of SI Environment. Wuhan Hanxi is principally engaged in sewage treatment in the PRC.

44. ACQUISITION OF SUBSIDIARIES/BUSINESSES (Continued)

(III) Acquisition of other subsidiaries (Continued)

	notes	2012 HK$'000	2011 HK$'000
Consideration transferred			
Cash		1,166	94,275
Deposit paid		–	62,593
Deferred consideration	(i)	–	2,287
Interest in an associate	(ii)	–	67,418
Shares issued by SI Environment	(iii)	–	37,048
		1,166	263,621
Assets acquired and liabilities recognised at the respective dates of acquisition are as follows			
Property, plant and equipment		234	–
Investments		265,301	–
Operating concessions		–	52,766
Interest in a jointly controlled entity		–	84,369
Receivables under service concession arrangements		–	458,431
Inventories		12	2,322
Trade and other receivables		512	160,862
Bank balances and cash		800	9,106
Trade and other payables		(265,693)	(112,067)
Bank and other borrowings		–	(292,009)
Deferred tax liabilities		–	(23,858)
		1,166	339,922
Gain from bargain purchase			
Consideration transferred		1,166	263,621
Plus: non-controlling interests	(iv)	–	40,348
Less: net assets acquired		(1,166)	(339,922)
Gain from bargain purchase	(v)	–	(35,953)
Net cash outflow arising on acquisition			
Cash consideration paid		1,166	94,275
Less: bank balances and cash acquired		(800)	(9,106)
		366	85,169

44. ACQUISITION OF SUBSIDIARIES/BUSINESSES (Continued)

(III) Acquisition of other subsidiaries (Continued)

notes:

(i) The deferred consideration was settled in new ordinary shares of SI Environment in February 2013.

(ii) The 37% equity interest in Wuhan Hanxi was remeasured at fair value at the date of acquisition and the resulting gain of HK$25,741,000 was recognised in profit or loss (note 9).

(iii) The fair value of the shares was determined using their published share price at the date of acquisition, amounting to S$5,915,000 (equivalent to HK$37,048,000).

(iv) The non-controlling interests of 20% in Wuhan Hanxi recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets of Wuhan Hanxi and amounted to HK$40,348,000.

(v) The introduction of SI Environment as the new controlling shareholder of Wuhan Hanxi was expected to strengthen its capital base, meet its working capital requirements and facilitate its future business development and expansion. In the opinion of the directors of the Company, the above are the key factors leading to the recognition of the above gain of HK$35,953,000.

(vi) The directors of the Company are of the opinion that the above subsidiaries acquired during the year ended 31 December 2012 had no significant contribution to the Group's revenue or results for the year ended 31 December 2012.

45. DISPOSAL OF SUBSIDIARIES

(I) For the year ended 31 December 2012

In December 2012, the Group disposed of its 100% equity interest in 成都中新錦泰房地產開發有限公司 ("Chengdu Zhongxin") to certain independent third parties at an aggregate consideration of RMB158 million (equivalent to HK$196,517,000) resulting in a gain of HK$359,222,000. Chengdu Zhongxin is principally engaged in property development and sales in the PRC.

(II) For the year ended 31 December 2011

During the year ended 31 December 2011, the Group disposed of the following subsidiaries:

(i) In March 2011, the Group disposed of its 100% equity interest in Shanghai Urban Development Group Hefei Real Estate Co., Ltd. ("Shanghai Hefei") at a consideration of approximately HK$311 million to an independent third party, resulting in a loss of HK$38,512,000. Shanghai Hefei is principally engaged in property development and sales in the PRC.

45. DISPOSAL OF SUBSIDIARIES (Continued)

(II) For the year ended 31 December 2011 (Continued)

(ii) In June 2011, the Group disposed of its 88.5% equity interest in Good Cheer Enterprises Limited ("Good Cheer") and a related shareholder's loan of HK$397,007,000 to certain connected persons at a consideration of approximately HK$1,164 million, out of which payment of approximately HK$342 million was deferred, resulting in a gain of HK$803,683,000. Following completion of this disposal, the Group retains 11.5% equity interest in Good Cheer as an available-for-sale investment. Good Cheer, through its subsidiaries, engages in hotel business in the PRC.

(iii) In June 2011, the Group disposed of its 90% equity interest in S.I. Feng Tao Properties (BVI) Limited ("Feng Tao") and a related shareholder's loan of HK$110,072,000 to certain connected persons at a consideration of approximately HK$1,226 million, out of which payment of approximately HK$665 million was deferred, resulting in a gain of HK$1,261,588,000. Following completion of this disposal, the Group retains 10% equity interest in Feng Tao as an available-for-sale investment. Feng Tao owns a development project located at Qingpu District in Shanghai, the PRC.

(iv) In November 2011, the Group disposed of its 100% equity interest in Better Score Limited ("Better Score"), which indirectly holds a financial asset designated as at FVTPL, to a connected person at a consideration of RMB2,000 million (equivalent to approximately HK$2,453 million).

(v) There were other disposals which mainly represented the disposal of Qingdao Company (see note 12). In July 2011, Qingdao Company entered into a capital injection agreement with an independent third party. Pursuant to the agreement, the third party injected approximately RMB1,183 million (equivalent to approximately HK$1,442 million) into Qingdao Company. Upon completion of the capital injection in the same month, SI Development's equity interest in Qingdao Company was diluted to 50% and accordingly, SI Development lost control over Qingdao Company and accounted for it as a 50% held jointly controlled entity thereafter.

(vi) As set out in note 12, during the year ended 31 December 2011, the Group also disposed of two disposal groups classified as held for sale as at 1 January 2011 and details of these disposals are disclosed therein.

45. DISPOSAL OF SUBSIDIARIES (Continued)

(III) Further details of the consideration, and assets and liabilities disposed of in respect of the disposed subsidiaries during the years ended 31 December 2011 and 2012 are set out below:

	2012 HK$'000	2011 HK$'000
Consideration		
Cash received	196,517	3,764,818
Deferred cash consideration (note i)		
– non-current	–	563,236
– current (included in other receivables)	–	320,285
Interest in a jointly controlled entity	–	1,328,459
Interest in an associate	–	350,007
Available-for-sale investments	–	235,956
Provision for onerous contracts (included in other payables)	–	(76,161)
Total consideration	196,517	6,486,600
Analysis of assets and liabilities over which control was lost		
Property, plant and equipment	554	421,720
Prepaid lease payments	–	289,808
Deferred tax assets	–	13,697
Inventories	1,570,036	6,613,648
Trade and other receivables	22,940	42,202
Investments	–	2,452,880
Bank balances and cash	17,853	260,268
Trade and other payables	(1,683,292)	(5,301,354)
Taxation payable	–	(23)
Bank and other borrowings	(90,796)	(251,989)
Net (liabilities) assets disposed of	(162,705)	4,540,857
Gain on disposal		
Consideration	196,517	6,486,600
Net liabilities (assets) disposed of	162,705	(4,540,857)
Non-controlling interests	–	424,931
Release of reserves	–	(19,522)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	–	282,893
	359,222	2,634,045
Gain on disposal		
– subsidiaries holding property interests	–	1,261,588
– other subsidiaries	359,222	1,372,457
	359,222	2,634,045
Net cash inflow arising on disposal		
Cash consideration received	196,517	3,764,818
Less: bank balances and cash disposed of	(17,853)	(260,268)
	178,664	3,504,550

45. DISPOSAL OF SUBSIDIARIES (Continued)

(III) (Continued)

notes:

(i) The deferred consideration on disposal of Good Cheer and Feng Tao would be settled in cash by the buyer by June 2012 and December 2013, respectively. The amounts were arrived at by discounting the deferred consideration using a discount rate of 6.6%.

(ii) The subsidiaries disposed of during both years did not have any significant contribution to the results and cash flows of the Group during the period prior to the disposals.

46. OPERATING LEASES

(I) The Group and the Company as lessees

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Within one year	75,323	93,645	4,968	9,708
In the second to fifth year inclusive	122,710	139,657	127	5,042
After five years	88,272	8,000	–	–
	286,305	241,302	5,095	14,750

notes:

(i) Operating lease payments represent rental payable by the Group and the Company for certain office and factory properties. Leases are negotiated for an average term of 20 years and rentals are fixed for a lease term of 1 to 5 years.

(ii) Included in the above are operating lease commitments for land and buildings payable by the Group and the Company to the ultimate holding company and certain fellow subsidiaries as follows:

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Within one year	31,345	43,857	4,968	9,708
In the second to fifth year inclusive	80,245	104,695	127	5,042
After five years	–	8,000	–	–
	111,590	156,552	5,095	14,750

46. OPERATING LEASES (Continued)

(II) The Group and the Company as lessors

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties and land and buildings:

	THE GROUP	
	31.12.2012 HK$'000	31.12.2011 HK$'000
Within one year	403,994	439,266
In the second to fifth year inclusive	915,786	1,057,769
After five years	1,482,729	1,685,636
	2,802,509	3,182,671

notes:

(i) Included in the above are operating lease commitments for investment properties of approximately HK$19.5 million (31.12.2011: HK$11.0 million) receivable by the Group from certain fellow subsidiaries.

(ii) The Company had no significant operating lease arrangements as lessor at the end of the reporting period.

47. CAPITAL COMMITMENTS

	THE GROUP	
	31.12.2012 HK$'000	31.12.2011 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– additions in properties under development held for sale	7,089,313	5,839,411
– acquisition of property, plant and equipment	201,612	90,493
– additions in construction in progress	28,435	–
– investments in PRC subsidiaries	–	245,040
	7,319,360	6,174,944
Capital expenditure authorised but not contracted for in respect of additions in construction in progress	460,199	–

In addition to the above, the Group's share of capital commitments of a jointly controlled entity is as follows:

	THE GROUP	
	31.12.2012 HK$'000	31.12.2011 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of investment in a PRC jointly controlled entity	–	251,972

The Company had no significant capital commitment at the end of the reporting period.

48. CONTINGENT LIABILITIES

	THE GROUP	
	31.12.2012 HK$'000	31.12.2011 HK$'000
Guarantees given to banks in respect of banking facilities utilised by		
– property buyers	2,037,260	2,954,703
– an entity controlled by Xuhui SASAC	393,035	266,272
– a former subsidiary	–	61,637
	2,430,295	3,282,612

As at 31 December 2012, the Company granted financial guarantees to the extent of approximately HK$9,451 million (31.12.2011: HK$12,923 million) to banks in respect of banking facilities granted to its subsidiaries, out of which approximately HK$9,200 million (31.12.2011: HK$10,770 million) were utilised.

On 25 July 2012, a writ of summons was issued by a third party against SI Urban Development for non-payment of a sum of RMB128,096,000 (equivalent to HK$159,324,000) which was alleged to be the outstanding consideration for its disposal of an entity to SI Urban Development in 2007. The consideration has been recorded in other payables since the completion of the acquisition by SI Urban Development in prior years. The writ also includes claims by the third party against SI Urban Development for liquidated damages of RMB218,017,000 (equivalent to HK$271,165,000) up to 25 July 2012, to be accumulated at a daily rate of RMB128,000 (equivalent to HK$159,000) thereafter until settlement.

The Group has not yet settled the payable because the counterparty failed to satisfy the terms of the contract which led to a significant loss to the Group. The Group has taken action and made application to China International Economic and Trade Arbitration Commission ("CEITAC") for arbitration of the disputes, including the Group's claim of the loss against the counterparty. The first hearing date of CEITAC has not yet been confirmed at date of issuance of the consolidated financial statements of SI Urban Development. The directors of the Company, after taking advice from the management of SI Urban Development which has consulted its legal advisors, considered it pre-matures to estimate the outcome of such arbitration as the case is complex and the counterparty has not given his responses in arbitration. Accordingly, no provision was made for the liquidated damages as of 31 December 2012.

49. PLEDGE OF ASSETS

The following assets were pledged by the Group to banks to secure general banking facilities granted by these banks to the Group:

(i) investment properties with an aggregate carrying value of HK$5,633,930,000 (31.12.2011: HK$6,221,268,000);

(ii) leasehold land and buildings with an aggregate carrying value of HK$11,516,000 (31.12.2011: HK$128,455,000);

49. PLEDGE OF ASSETS (Continued)

(iii) plant and machineries with an aggregate carrying value of HK$194,102,000 as at 31 December 2011 (31.12.2012: Nil);

(iv) One (31.12.2011: two) toll road operating right of HK$3,359,512,000 (31.12.2011: HK$10,708,600,000);

(v) receivables under service concession arrangements with an aggregate carrying value of HK$1,900,411,000 (31.12.2011: HK$94,070,000);

(vi) properties under development held for sale with an aggregate carrying value of HK$10,767,128,000 (31.12.2011: HK$7,712,800,000);

(vii) properties held for sale with an aggregate carrying value of HK$30,545,000 as at 31 December 2011 (31.12.2012: Nil);

(viii) trade receivables with an aggregate carrying value of HK$174,926,000 (31.12.2011: HK$132,363,000); and

(ix) bank deposits with an aggregate carrying value of HK$447,838,000 (31.12.2011: HK$333,594,000).

50. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate a defined contribution retirement benefits scheme for their qualifying employees pursuant to the Occupational Retirement Schemes Ordinance. To comply with the Mandatory Provident Fund Schemes Ordinance, a Mandatory Provident Fund Scheme was also established. The assets of both schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the consolidated income statement represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the defined contribution retirement benefits scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

The employees employed by the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the end of the reporting period, no forfeited contributions were available to reduce the contribution payable in future years.

51. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Connected persons

(a) During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. The significant transactions with the connected parties during the year, and significant balances with them at the end of the reporting period, are as follows:

Connected persons	Nature of transactions and balances	THE GROUP 2012 HK$'000	 2011 HK$'000
Transactions			
Ultimate holding company:			
SIIC	Rentals paid by the Group on land and buildings (note b(i))	1,844	1,806
Fellow subsidiaries:			
Shanghai SIIC Property Management Co., Ltd. ("Shanghai SIIC PM")	Management fee paid by the Group on land and buildings (note b(ii))	429	611
International Hope Limited ("International Hope")	Rentals and management fee paid by the Group on land and buildings (note b(iii))	10,950	10,368
Nanyang Enterprises Properties Limited ("Nanyang Properties")	Rentals paid by the Group on land and buildings (note b(iv))	24,000	24,000
SIIC Estate Co., Ltd. ("SIIC Estate")	Rentals paid by the Group on land and buildings (note b(v))	26	26
SIIC Shanghai (Holdings) Company Limited ("SIIC Shanghai")	Rentals and management fee paid by the Group on land and buildings (note b(vi))	6,381	6,250
	Loans provided to the Group (note c)	1,290,442	2,955,271
	Interest paid by the Group (note c)	90,593	166,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

51. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

(a) (Continued)

Connected persons	Nature of transactions and balances	THE GROUP 2012 HK$'000	2011 HK$'000
Transactions (Continued)			
Jointly controlled entity:			
上海星河數碼投資有限公司 ("Shanghai Galaxy")	Investment income received by the Group (note d)	56,983	44,993
	Management fee paid by the Group (note d)	3,528	8,840
	Capital injection by the Group	–	393,423
Non-controlling shareholders of subsidiaries:			
Xinnan (Tianjin) Paper Co., Ltd. ("Xinnan Tianjin")	Purchase of raw materials by the Group (note e)	–	24,078
Fellow subsidiaries of non-controlling shareholders of subsidiaries:			
Four Season Hotels and Resorts Asia Pacific Pte. Ltd. ("Four Season Resorts")	Hotel advisory services provided by the Group (note f)	–	4,157
Four Seasons Shanghai B.V. ("Four Seasons Shanghai")	Hotel management services provided by the Group (note f)	–	340
Four Seasons Hotels Limited ("Four Seasons")	Hotel services provided by the Group (note f)	–	2,927

51. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

(a) (Continued)

Connected persons	Nature of transactions and balances	THE GROUP 2012 HK$'000	THE GROUP 2011 HK$'000
Balances			
Non-controlling shareholders of subsidiary:			
Xuhui SASAC and entities controlled by Xuhui SASAC	Non-trade receivables by the Group (note g)	128,755	122,681
	Non-trade payables by the Group (note g)	304,868	359,289

(b) The Group and certain of its connected parties had entered into tenancy and licence agreements as follows:

(i) On 15 July 2011, S.I. Infrastructure Holdings Limited ("S.I. Infrastructure"), a wholly owned subsidiary of the Company, entered into a tenancy agreement with SIIC for leasing of SIIC's premises situated in the PRC for a term of two years commencing on 1 May 2011.

(ii) On 13 July 2011, a property management services contract was entered into between S.I. Infrastructure and Shanghai SIIC PM, pursuant to which, Shanghai SIIC PM would provide property management services to S.I. Infrastructure in respect of the leased premises above for a term of one year commencing on 11 May 2011. The contract was renewed in May 2012 to further extend the term of service for one year.

(iii) On 30 August 2011 and 1 July 2011, the Company and Nanyang Brothers Tobacco Company, Limited ("Nanyang Brothers"), a wholly owned subsidiary of the Company entered into a tenancy agreement and two licence agreements with International Hope for leasing of International Hope's premises and car parking spaces in Hong Kong for terms of two to three years, commencing on 1 July 2011.

(iv) On 8 May 1997, Nanyang Brothers entered into a tenancy agreement with Nanyang Properties for leasing Nanyang Properties' premises situated in Hong Kong for a term of twenty years commencing on 1 May 1997, with an option to renew for a further term of five years.

(v) On 30 June 2009, the Company entered into a licence agreement with SIIC Estate for leasing of SIIC Estate's premises situated in Hong Kong for a term of three years commencing on 1 January 2009. The monthly licence fee is determined on arm's length basis and with reference to the monthly licence fee of car park at similar location offered by independent third parties. The contract was renewed on 27 January 2012 to further extend the term of licence for three years.

51. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

(b) (Continued)

(vi) On 29 April 2011, SIIC Management (Shanghai) Co., Ltd. ("SIIC Management"), a wholly owned subsidiary of the Company, entered into a tenancy agreement with SIIC Shanghai for leasing of SIIC Shanghai's premises situated in the PRC for a term of two years commencing on 1 May 2011.

The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.

(c) On 30 April 2011 and 30 April 2012, Shanghai Feng Mao Properties Co., Ltd. ("Feng Mao Shanghai") and Shanghai Feng Qi Properties Co., Ltd. ("Feng Qi Shanghai") entered into loan agreements and the new loan agreements with SIIC Shanghai respectively. Pursuant to which, SIIC Shanghai has granted loans of RMB552,768,000 (equivalent to HK$679,577,000) to Feng Mao Shanghai (the "Feng Mao Shanghai Loan") and RMB496,878,000 (equivalent to HK$610,865,000) to Feng Qi Shanghai (the "Feng Qi Shanghai Loan"). Such loans were for a term of one year from 1 May 2011 to 30 April 2012 and further extended to 30 April 2013 under the new loan agreements.

The Feng Mao Shanghai Loan and the Feng Qi Shanghai Loan carry interest at the prevailing annual interest rate for loans charged by banks payable quarterly and their terms were determined and agreed by corresponding parties.

(d) On 23 May 2011,上海滬寧高速公路(上海段)發展有限公司(Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited) ("Shanghai Hu-Ning Expressway"), a wholly owned subsidiary of the Company, entered into an asset management entrustment agreement with Shanghai Galaxy, a wholly owned subsidiary of SIIC. The amount of funds entrusted to Shanghai Galaxy during the year for the provision of assets management services amounted to RMB400 million (equivalent to approximately HK$492 million) (2011: RMB400 million (equivalent to approximately HK$482 million)), which were fully settled by the end of the reporting period.

(e) On 29 December 2009, Hebei Yongxin Paper Co., Ltd. ("Hebei Yongxin"), a former subsidiary of the Company, entered into a purchase agreement with Xinnan Tianjin in relation to the purchase of raw materials for a term of three years from 1 January 2010 to 31 December 2012. The transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.

Hebei Yongxin was no longer a subsidiary of the Company, and Xinnan Tianjin was not a connected person of the Company since April 2011.

51. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

(f) On 14 January 2000, the Shanghai SIIC South Pacific Hotel Co., Ltd. ("Hotel Company"), a former subsidiary of the Company, entered into 3 agreements with Four Seasons Resorts, Four Seasons Shanghai and Four Seasons respectively for the provision of advisory services and grant of trademark licences to the Hotel Company, provision of services related to the day-to-day operation and management of the Four Seasons Hotel Shanghai and provision of ongoing purchasing, refurbishing and marketing services by Four Seasons to the Four Seasons Hotel Shanghai for a period of 15 years from the date of signing of the approvals by all relevant governmental authorities. The terms of these transactions were determined and agreed by the parties.

The Hotel Company was no longer a subsidiary of the Company since June 2011, and Four Seasons Resorts, Four Seasons Shanghai and Four Seasons were then not a connected person of the Company.

(g) The amounts due from Xuhui SASAC and entities controlled by Xuhui SASAC are unsecured. An amount of approximately HK$111,568,000 as at 31 December 2012 (2011: HK$110,578,000) represents loan advanced to an entity controlled by Xuhui SASAC through an entrusted loan agreement administrated by a bank, which carries interest at 5.8% (2011: 5.8%) per annum, and is unsecured and repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable on demand.

The amounts due to Xuhui SASAC and entities controlled by Xuhui SASAC are unsecured. An amount of approximately HK$226,952,000 (2011: HK$206,298,000) included in the balances as at 31 December 2012 represents loan advanced from an entity controlled by Xuhui SASAC through an entrusted loan agreement administrated by a bank, which carries fixed interest at 5.8% per annum (2011: 5.8%) per annum and are repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable on demand.

(h) Pursuant to an agreement dated 26 December 2002 and the supplemental agreements dated 15 December 2009 and 6 December 2012 entered into between Xuhui State-owned Assets Management Co. Ltd. ("State-owned Management Company") and Shanghai Urban Development (the "Cross Guarantee Agreement"), the parties thereto agree to guarantee each other's obligations in respect of certain loans/facilities obtained by them from time to time from banks or credit unions to the extent of not more than RMB1,200 million, and the limit has been reduced to RMB400 million from 1 January 2013 onwards. In respect of those guarantees which have already been entered into by State-owned Management Company and Shanghai Urban Development pursuant to the Cross Guarantee Agreement, they will continue until the underlying loans/facilities mature/expire and all amounts owed are fully repaid.

51. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

(h) (Continued)

As at 31 December 2012, the total amount of loans/facilities obtained by State-owned Management Company in respect of which guarantees were provided by Shanghai Urban Development amounted to approximately RMB316 million (equivalent to approximately HK$393 million) (31.12.2011: RMB216 million (equivalent to approximately HK$266 million)).

The provision of the aforesaid guarantees by Shanghai Urban Development constitutes non-exempt continuing connected transactions for the Company. Upon any variation of the Cross Guarantee Agreement, the Company shall then have the obligation to comply in full all applicable reporting, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

(i) Details of operating lease commitments with connected parties are set out in note 46.

(j) During the current year, immediately upon completion of the acquisition of 100% equity interest in S.I. Feng Shun Properties (BVI) Limited ("Feng Shun") from SIIC for a consideration of HK$181,265,000, the Group (i) disposed of 90% equity interest in Feng Shun, and (ii) transferred a related shareholder's loan of HK$151,401,000 to certain parties which are deemed to be connected persons of the Company for a total consideration of approximately HK$1,537 million, of which an amount of approximately HK$107 million was received as a deposit by 31 December 2011 and an amount of approximately HK$776 million is receivable in December 2013. These transactions resulted in a gain on disposal before taxation of HK$1,276,515,000 to the Group for the current year. Further details of these transactions are set out in the Company's announcements dated 26 February 2011 and 20 April 2012.

(k) Details of amounts due to certain fellow subsidiaries are set out in note 36.

(l) On 13 November 2012, Shanghai SIIC Nankai Property Co., Ltd, a non-wholly owned subsidiary of the Company, entered into an agreement with Shanghai Industrial Island Development Co., Ltd., a wholly owned subsidiary of SIIC Shanghai, to acquire an investment property located in the PRC, at a consideration of RMB42,000,000 (equivalent to approximately HK$51,814,000), which was arrived at after arm's length negotiation after taking into consideration the valuation of the investment property as appraised by an independent property valuer. The transaction was completed by 31 December 2012. Details of the transaction are set out in an announcement of the Company dated 13 November 2012.

(m) At 31 December 2012, a bank borrowing amounting to approximately RMB497 million (equivalent to approximately HK$618 million) (31.12.2011: RMB499 million (equivalent to approximately HK$615 million)) was secured by properties owned by the Group and a fellow subsidiary of the Group.

51. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(II) Related parties, other than connected persons

In addition to the transactions set out in note 51(I) above, the significant transactions with other related parties during the year, and significant balances with them at the end of the reporting period, are as follows:

Related parties	Nature of transaction and balance	THE GROUP 2012 HK$'000	THE GROUP 2011 HK$'000
Associates:			
上海城開地產經紀有限公司 (Shanghai Urban Development Real Estate Agency Co., Ltd.)	Property agency fees paid by the Group	38,802	34,692
	Trade payables by the Group	85,688	83,913

Details of amounts due from associates are set out in note 33.

The Company's balances with other related parties are set out in the statement of financial position of the Company and in note 25.

(III) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2012 HK$'000	2011 HK$'000
Short-term benefits	30,076	31,676
Share-based payments	13,861	49,539
	43,937	81,215

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

52. MATERIAL TRANSACTIONS AND BALANCES WITH GOVERNMENT RELATED ENTITIES

The Group itself is part of a larger group of companies under SIIC, which is controlled by the PRC government. The directors consider that the Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predenominated by entities controlled, jointly controlled or significantly influenced by the PRC government. Apart from the transactions with SIIC, other connected persons and related parties disclosed in note 51, the Group also conducts business with other government related entities in the ordinary course of business. In the opinion of the directors of the Company, these transactions are considered as individually and collectively insignificant to the operation of the Group. The directors consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

53. GOVERNMENT GRANTS

Government grants of approximately HK$39.2 million (2011: HK$38.1 million) was received in the current year from local government as compensation for the decrease of toll fee income and approximately HK$0.4 million (2011: HK$0.4 million) was received as incentives for investments in certain provinces in the PRC. These amounts have been included in other income for the year.

During the current year, the Group received compensation from local government in respect of land recapture, which was included in properties under development held for sale, of approximately HK$36.9 million (2011: Nil) and business and other taxes refund from local tax authorities of approximately HK$143 million (2011: HK$102 million). These amounts have been included in other income for the year.

Also during the current year, the Group received a government subsidy of RMB126 million (equivalent to approximately HK$157 million) for the relocation of a water plant in the PRC. The amount has been deducted from the carrying amount of operating concessions (included in other intangible assets) and will be transferred to income in the form of reduced amortisation charges over the remaining useful lives of operating concessions. This policy has resulted in a credit to profit or loss in the current year of HK$4,393,000. As at 31 December 2012, an amount of approximately HK$152 million remained in operating concessions to be amortised.

54. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company/subsidiaries 31.12.2012	31.12.2011	Principal activities
SI Development (note i)	The PRC	A shares –RMB1,083,370,873	63.65%	63.65%	Property development and investment
SI Urban Development (note ii)	Bermuda/ The PRC	Ordinary shares – HK$192,461,000	69.95%	69.95%	Property development and investment
Shanghai Hu-Ning Expressway (note iii)	The PRC	RMB3,000,000,000	100%	100%	Holding of the right to operate a toll road
上海路橋發展有限公司 (Shanghai Luqiao Development Co., Ltd.) (note iii)	The PRC	RMB1,600,000,000	100%	100%	Holding of the right to operate a toll road
上海申渝公路建設發展有限公司 (Shanghai Shen-Yu Development Co., Ltd.) (note iii)	The PRC	RMB1,200,000,000	100%	100%	Holding of the right to operate a toll road
SI Environment (note iv)	The Republic of Singapore/ The PRC	Ordinary shares – RMB1,153,128,607 (2011: RMB1,136,949,043)	54.63%	55.23%	Sewage treatment and water supply
S.I. Infrastructure	The British Virgin Islands/ Hong Kong	Ordinary share – US$1	100%	100%	Investment holding
SIHL Treasury Limited ("SIHL Treasury")	Hong Kong	Ordinary shares – HK$2	100%	100%	Investment
Nanyang Tobacco (Marketing) Company, Limited	The British Virgin Islands/ PRC and Macau	Ordinary shares – US$1 – HK$100,000,000	100%	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers	Hong Kong	Ordinary shares – HK$2	100%	100%	Manufacture and sale of cigarettes
		Non-voting deferred shares – HK$8,000,000	–	–	
The Wing Fat Printing Company, Limited	Hong Kong	Ordinary shares – HK$2,000,000	93.47%	93.47%	Manufacture and sale of packaging materials, printed products and paper making

54. PRINCIPAL SUBSIDIARIES (Continued)

notes:

(i) This company is listed on the A Shares Market of the Shanghai Stock Exchange.

(ii) This company is listed on the Main Board of the Stock Exchange.

(iii) These companies were established in the PRC as wholly foreign owned enterprises.

(iv) This company is listed on the Mainboard of the Singapore Exchange Securities Trading Limited.

(v) Except for S.I. Infrastructure and SIHL Treasury, all the above subsidiaries are indirectly held by the Company.

(vi) None of the deferred shares are held by the Group. The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have practically no rights to dividends or to participate in any distributions on winding up.

(vii) Other than as disclosed in notes 38 and 39, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(viii) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

55. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31 December 2012 and 2011 are as follows:

Name of jointly controlled entity	Place of incorporation or establishment/ operations	Percentage of issued share/ registered capital attributable to the Group 31.12.2012	31.12.2011	Principal activities
Shanghai Galaxy	The PRC	50%	50%	Provision of asset management services
中環保水務投資有限公司 (General Water of China Co., Ltd.)	The PRC	47.5%	47.5%	Joint investment and operation of water-related and environment protection business in the PRC

The above jointly controlled entities are indirectly held by the Company and the Group has members in the board of directors of the respective entities.

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

56. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2012 and 2011, which are all established in the PRC, are as follows:

Name of associate	Form of entity	Percentage of registered capital attributable to the Group	Principal activities
天津市億嘉合置業有限公司	Limited company	28.0% (note i)	Property development
上海莘天置業有限公司	Sino-foreign joint venture	14.5% (note ii)	Property development

notes:

(i) This is a 40% owned associate of SI Urban Development, which the Group owns as to its 69.95% equity interest.

(ii) This is a 20.7% owned associate of SI Urban Development, which the Group owns as to its 69.95% equity interest.

(iii) The above associates are indirectly held by the Company.

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

57. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (i.e. the board of directors of the Company) for the purposes of resource allocation and performance assessment, are as follows:

Infrastructure facilities – investment in toll road projects and water-related business

Real estate – property development and investment and hotel operation

Consumer products – manufacture and sale of cigarettes, packaging materials and printed products

Infrastructure facilities, real estate and consumer products also represent the Group's reportable segments.

57. SEGMENT INFORMATION (Continued)

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

For the year ended 31 December 2012

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Consolidated HK$'000
REVENUE				
Segment revenue – external sales	2,848,463	13,011,356	3,427,091	19,286,910
Segment profit	1,494,106	2,585,729	989,680	5,069,515
Net unallocated corporate expense				(36,055)
Finance costs				(1,031,715)
Share of results of jointly controlled entities				27,520
Share of results of associates				13,512
Gain on disposal of Feng Shun				1,276,515
Gain on disposal of interests in other subsidiaries, jointly controlled entities and associates				668,876
Impairment loss on available-for-sale investments				(40,427)
Profit before taxation				5,947,741

For the year ended 31 December 2011

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Consolidated HK$'000
REVENUE				
Segment revenue – external sales	2,453,826	8,583,251	3,932,055	14,969,132
Segment profit	1,300,615	2,107,105	934,001	4,341,721
Net unallocated corporate expense				(474)
Finance costs				(1,078,804)
Share of results of jointly controlled entities				19,960
Share of results of associates				36,587
Gain from bargain purchase of interests in subsidiaries				73,671
Gain on disposal of interests in subsidiaries holding property interests				1,261,588
Gain on disposal of interests in other subsidiaries, jointly controlled entities and associates				1,773,231
Impairment loss on available-for-sale investments				(110,474)
Profit before taxation				6,317,006

57. SEGMENT INFORMATION (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of net corporate expense, finance costs, share of results of jointly controlled entities, share of results of associates, gain on disposal of Feng Shun, gain from bargain purchase of interests in subsidiaries, gain on disposal of interests in subsidiaries holding property interests, gain on disposal of interests in other subsidiaries, jointly controlled entities and associates and impairment loss on available-for-sale investments. This is the measure reported to the board of directors of the Company for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

At 31 December 2012

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Consolidated HK$'000
Segment assets	21,872,505	78,375,403	4,782,832	105,030,740
Interests in jointly controlled entities				1,781,046
Interests in associates				1,966,769
Investments				1,368,509
Deferred tax assets				270,922
Prepaid taxation				399,127
Corporate bank balances and cash				4,049,399
Assets classified as held for sale				376,516
Other unallocated assets				69,983
Consolidated assets				115,313,011
Segment liabilities	1,387,262	20,031,053	528,868	21,947,183
Taxation payable				3,737,308
Bank and other borrowings				32,831,678
Senior notes				2,746,903
Deferred tax liabilities				5,696,608
Other unallocated liabilities				114,298
Consolidated liabilities				67,073,978

57. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

At 31 December 2011 (restated)

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Consolidated HK$'000
Segment assets	20,290,026	76,161,800	4,840,245	101,292,071
Interests in jointly controlled entities				1,741,484
Interests in associates				2,062,822
Investments				1,481,797
Deferred tax assets				288,210
Prepaid taxation				475,258
Corporate bank balances and cash				6,609,328
Assets classified as held for sale				1,461,315
Other unallocated assets				402,332
Consolidated assets				115,814,617
Segment liabilities	1,217,661	23,373,568	765,741	25,356,970
Taxation payable				3,393,521
Bank and other borrowings				32,871,905
Senior notes				3,042,928
Deferred tax liabilities				5,545,863
Other unallocated liabilities				129,395
Consolidated liabilities				70,340,582

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets of continuing operations are allocated to operating segments other than interests in jointly controlled entities, interests in associates, investments, deferred tax assets, prepaid taxation, corporate bank balances and cash, assets classified as held for sale and other unallocated assets; and
- all liabilities of continuing operations are allocated to operating segments other than taxation payable, bank and other borrowings, senior notes, deferred tax liabilities, and other unallocated liabilities.

57. SEGMENT INFORMATION (Continued)

Other segment information

2012

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment profit or loss or segment assets:					
Additions to non-current assets (note)	355,934	226,115	182,354	3,618	768,021
Depreciation and amortisation	680,041	112,524	129,234	2,534	924,333
Impairment loss on bad and doubtful debts	2,621	2	–	–	2,623
Impairment loss on properties held for sale	–	71,627	–	–	71,627
Reversal of impairment loss on bad and doubtful debts	(32,913)	–	(774)	–	(33,687)
Amounts regularly provided to the board of directors of the Company but not included in the measurement of segment profit or segment assets:					
Interests in jointly controlled entities	1,781,046	–	–	–	1,781,046
Interests in associates	2,589	1,831,185	132,995	–	1,966,769
Share of results of jointly controlled entities	(27,520)	–	–	–	(27,520)
Share of results of associates	(217)	4,902	(18,197)	–	(13,512)

57. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2011

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment profit or loss or segment assets:					
Additions to non-current assets (note)	856,971	268,660	436,200	453	1,562,284
Depreciation and amortisation	575,742	135,346	125,258	2,535	838,881
Impairment loss on bad and doubtful debts	64,806	78	630	–	65,514
Impairment loss on properties held for sale	–	57,742	–	–	57,742
Impairment loss on other intangible assets	8,285	–	–	–	8,285
Reversal of impairment loss on bad and doubtful debts	(10,890)	–	–	–	(10,890)
Amounts regularly provided to the board of directors of the Company but not included in the measurement of segment profit or segment assets:					
Interests in jointly controlled entities	1,741,484	–	–	–	1,741,484
Interests in associates	–	1,805,191	257,631	–	2,062,822
Share of results of jointly controlled entities	(24,464)	–	4,504	–	(19,960)
Share of results of associates	6,193	434	(43,214)	–	(36,587)

note: Non-current assets excluded those classified as held for sale and excluded financial instruments, goodwill and deferred tax assets.

57. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are mainly located in Hong Kong (place of domicile) and the PRC.

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers	
	2012	2011
	HK$'000	HK$'000
PRC	17,483,980	13,322,674
Asia areas, other than Hong Kong and the PRC	1,108,201	544,185
Hong Kong (place of domicile)	543,718	976,840
Other areas	151,011	125,433
	19,286,910	14,969,132

	Non-current assets (note)	
	2012	2011
	HK$'000	HK$'000
PRC	27,199,824	27,368,691
Hong Kong (place of domicile)	1,008,927	990,654
	28,208,751	28,359,345

note: Non-current assets excluded those classified as held for sale, interests in jointly controlled entities and associates, financial instruments and deferred tax assets.

Information about major customers

No individual customer contributed to over 10% of the total revenue of the Group for both years.

58. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in notes 39 and 40, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

59. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	THE GROUP		THE COMPANY	
	31.12.2012 HK$'000	31.12.2011 HK$'000	31.12.2012 HK$'000	31.12.2011 HK$'000
Financial assets				
Fair value through profit or loss				
Held for trading	253,057	518,402	–	–
Designated as at FVTPL	30,937	29,723	–	–
Loans and receivables (including cash and cash equivalents)	28,850,810	24,449,006	33,974,865	29,972,900
Available-for-sale investments	1,084,515	933,672	59,270	99,697
Financial liabilities				
Amortised cost	43,370,491	41,320,989	7,909,027	5,593,109
Derivative financial instrument – warrants	–	3	–	–

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, financial assets at FVTPL, trade and other receivables, receivables under service concession arrangements, consideration receivables, restricted bank deposits, pledged bank deposits, short-term bank deposits, bank balances and cash, trade and other payables, bank and other borrowings and senior notes. The Company's major financial instruments include other receivables, amounts due from subsidiaries, short-term bank deposits, bank balances and cash, other payables, amounts due to subsidiaries and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC and Hong Kong and the exposure in exchange rate risks mainly arises from fluctuations in United States dollar, Hong Kong dollar and Renminbi exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. As Renminbi is under managed floating system, after reviewing the Group's exposure for the time being, the Group did not enter into any derivative contracts aimed at minimising exchange rate risks during the year. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

59. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's and the Company's monetary assets and monetary liabilities at the reporting date that are denominated in currencies other than the functional currency of the group entities ("foreign currency") are as follows:

	THE GROUP				THE COMPANY			
	Assets		Liabilities		Assets		Liabilities	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Renminbi (against Hong Kong dollar)	1,340,406	1,242,351	1,249,972	1,664,738	867,435	906,462	–	–
United States dollar (against Hong Kong dollar and Renminbi)	1,069,635	3,419,329	3,344,890	3,393,709	633,846	2,467,876	–	–
Hong Kong dollar (against Renminbi)	89,068	116,600	1,014,630	1,049,418	–	–	–	–

The above foreign currency denominated monetary assets and monetary liabilities mainly represent the Group's trade and other receivables, pledged bank deposits, short-term bank deposits, bank balances and cash, trade and other payables, bank and other borrowings and senior notes.

Sensitivity analysis

The following table details the Group's and the Company's sensitivity to a 5% (2011: 5%) increase and decrease in the functional currency of each group entity against the above foreign currency. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 5% (2011: 5%) increase in foreign currency rates. A (negative) positive number below indicates (a decrease) an increase in profit after taxation where the above foreign currency strengthens 5% against the functional currency of each group entity.

	THE GROUP		THE COMPANY	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
(Decrease) increase in profit after taxation	(136,951)	(41,478)	62,678	140,879

59. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group's fair value and cash flow interest rate risks mainly relate to fixed and variable rates borrowings respectively. The Group's receivables under service concession arrangements, pledged bank deposits, fixed rate amounts due to certain fellow subsidiaries, fixed-rate bank and other borrowings and senior notes have exposure to fair value interest rate risk due to the fixed interest rate on these instruments. The Group's and the Company's bank balances and variable-rate bank and other borrowings also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate.

The management monitors interest rate exposure on ongoing basis and entered into interest rate swaps to partially hedge against its exposure to variability in cash flows of the variable-rate borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is adopted. During the year ended 31 December 2011, the interest rate swaps were terminated upon the early repayment of the relevant bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable-rate bank balances and short-term bank deposits (collectively referred to as the "Bank Deposits") and variable-rate borrowings at the end of the reporting period. The sensitivity analysis does not consider the effect of interest expenses qualified for capitalisation.

For variable-rate borrowings and Bank Deposits, the analysis is prepared assuming that the amount of asset/liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point and 10 basis point (2011: 50 basis point and 10 basis point), respectively, increase or decrease are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rates had been 50 basis point and 10 basis point (2011: 50 basis point and 10 basis point) higher/lower and all other were variables were held constant, the Group's profit after taxation for the year would decrease/increase by HK$94,404,000 (2011: HK$118,538,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate Bank Deposits and borrowings.

No sensitivity analysis is prepared for the Company's exposure to interest rate risk as the impact is not significant.

59. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Price risk

The Group is exposed to price risk through their listed investments classified as either available-for-sale investments or financial assets at FVTPL. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's price risk is mainly concentrated on equity instruments quoted in the Stock Exchange and the Shanghai Stock Exchange. In addition, the management has appointed a team of specialists to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks on quoted equity investments held by the Group at the reporting date:

If the prices of the respective quoted equity instruments had been 5% (2011: 5%) higher/lower:

- profit after taxation for the year would increase/decrease by HK$11,802,000 (2011: HK$22,822,000) as a result of the changes in fair value of financial assets at FVTPL; and
- investment revaluation reserve would increase/decrease by HK$9,665,000 (2011: HK$9,005,000) as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at 31 December 2012, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties and financial guarantees provided is arising from:

- the carrying amount of the respective recognised financial assets as stated in the statements of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group and the Company as disclosed in note 48.

The Group's principal financial assets are receivables under service concession arrangements, restricted bank deposits, short-term bank deposits, bank balances and cash, equity and debt investments and trade and other receivables.

59. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

With respect to the credit risk of the Group's treasury operations, management has established internal procedures to monitor the Group's bank balances and cash, securities investments to be placed and entered into with financial institutions of good reputation. These internal procedures also impose limitation on the amount outstanding and to mange the credit ratings on investments to be held, so as to minimise the Group's credit risk exposure.

The credit risk arising from receivables under service concession arrangements is limited as these receivables are guaranteed by the relevant governmental authorities in the PRC.

The credit risk arising from consideration receivables, which are due from a few counterparties, is limited after assessing the financial background of the counterparties.

The Group's concentration of credit risk by geographical locations of customers are mainly in the PRC and Hong Kong which accounted for 83% (31.12.2011: 70%) and 17% (31.12.2011: 30%), respectively, of the trade receivables as at 31 December 2012.

The Group's and the Company's credit risk on bank balances and bank deposits is limited because the counterparties are banks with good reputation.

The Company has concentration of credit risk in relation to amounts due from five subsidiaries which account for 97% (31.12.2011: 94%) of the total amounts due from subsidiaries balance. These subsidiaries are of a good credit standing at the end of the reporting period by reference to their financial position and business prospects. The Company's credit risk position is monitored closely by management of the Company.

Liquidity risk

The Group's and the Company's liquidity position are monitored closely by management. The following tables detail the contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

59. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
THE GROUP							
2012							
Non-interest bearing	–	2,804,592	382,589	3,767,875	836,855	7,791,911	7,791,911
Fixed interest rate instruments	7.15	55,651	108,367	3,088,112	5,342,362	8,594,492	7,733,764
Variable interest rate instruments	3.90	92,724	171,968	8,623,805	20,843,673	29,732,170	27,844,816
		2,952,967	662,924	15,479,792	27,022,890	46,118,573	43,370,491
Financial guarantee contracts	–	2,430,295	–	–	–	2,430,295	–

	Weighted average interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
THE GROUP							
2011							
Non-interest bearing	–	2,202,147	338,721	2,442,642	422,646	5,406,156	5,406,156
Fixed interest rate instruments	4.42	32,860	65,238	722,374	5,376,577	6,197,049	5,200,268
Variable interest rate instruments	4.05	103,141	197,935	15,161,544	17,271,208	32,733,828	30,714,565
		2,338,148	601,894	18,326,560	23,070,431	44,337,033	41,320,989
Financial guarantee contracts	–	3,282,612	–	–	–	3,282,612	–

59. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
THE COMPANY							
2012							
Non-interest bearing	–	–	–	865,246	–	865,246	865,246
Fixed interest rate instrument	2.20	2,356	4,485	20,616	1,254,501	1,281,958	1,243,781
Variable interest rate instruments	1.71	8,594	12,782	5,853,968	–	5,875,344	5,800,000
		10,950	17,267	6,739,830	1,254,501	8,022,548	7,909,027
Financial guarantee contracts	–	9,450,870	–	–	–	9,450,870	–

	Weighted average interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
THE COMPANY							
2011							
Non-interest bearing	–	–	–	559,975	–	559,975	559,975
Fixed interest rate instrument	2.41	3,445	6,677	458,202	1,270,487	1,738,811	1,663,134
Variable interest rate instruments	1.34	3,914	6,085	3,398,288	–	3,408,287	3,370,000
		7,359	12,762	4,416,465	1,270,487	5,707,073	5,593,109
Financial guarantee contracts	–	12,923,310	–	–	–	12,923,310	–

The amounts included above for financial guarantee contracts are the maximum amounts the Group and the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group and the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

59. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;

- the fair value of other financial assets at FVTPL are determined by reference to bid prices quoted in active markets or prices provided by the respective issuing banks or financial institutions using valuation technique; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

59. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

	At 31 December 2012				At 31 December 2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000 (note)	Total HK$'000
Financial assets at FVTPL								
Listed convertible notes	30,937	–	–	30,937	29,723	–	–	29,723
Non-derivative financial assets held for trading	253,057	–	–	253,057	518,402	–	–	518,402
Available-for-sale financial assets								
Listed equity securities	193,294	–	–	193,294	180,100	–	–	180,100
Total	477,288	–	–	477,288	728,225	–	–	728,225

note: Reconciliation of Level 3 fair value measurement of financial assets:

	HK$'000
At 1 January 2011	2,798,675
Exchange adjustments	69,044
Change in fair value recognised in profit or loss (included in net investment income)	144,506
Settlement	(559,345)
Disposal of Better Score (note 45(II)(iv))	(2,452,880)
At 31 December 2011 and 31 December 2012	–

60. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group issued zero coupon convertible bonds due in 2018 in the aggregate principal amount of HK$3,900,000,000 on 18 February 2013. The convertible bonds are listed on the Stock Exchange since 19 February 2013. The initial conversion price of the convertible bonds is HK$36.34 per share (subject to adjustments) and assuming full conversion, the convertible bonds will be converted into 107,319,758 shares in the Company. The net proceeds from the issue, after deduction of commission and expenses, amounted to HK$3,861,000,000.

Further details of the convertible bonds issue are set out in the Company's announcements dated 17 January 2013, 8 February 2013 and 18 February 2013.

FINANCIAL SUMMARY

	Year ended 31 December 2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000 (restated)	2012 HK$'000
RESULTS					
Revenue	7,452,105	7,061,653	14,435,231	14,969,132	19,286,910
Profit before taxation	2,683,795	3,828,453	4,487,839	6,317,006	5,947,741
Income tax expense	(420,151)	(1,102,330)	(865,784)	(2,179,787)	(1,621,251)
Profit for the year from continuing operations	2,263,644	2,726,123	3,622,055	4,137,219	4,326,490
Profit for the year from discontinued operations	594,122	1,005,177	3,269,339	–	–
Profit for the year	2,857,766	3,731,300	6,891,394	4,137,219	4,326,490
Attributable to					
– Owners of the Company	2,101,546	2,870,132	6,205,034	4,022,575	3,438,210
– Non-controlling interests	756,220	861,168	686,360	114,644	888,280
	2,857,766	3,731,300	6,891,394	4,137,219	4,326,490

	HK$	HK$	HK$	HK$	HK$
Earnings per share					
– Basic	1.96	2.66	5.75	3.725	3.184
– Diluted	1.95	2.66	5.75	3.725	3.182

	As at 31 December 2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000 (restated)	2012 HK$'000
ASSETS AND LIABILITIES					
Total assets	51,716,344	64,268,957	109,446,036	115,814,617	115,313,011
Total liabilities	(19,835,332)	(30,171,601)	(70,645,300)	(70,340,582)	(67,073,978)
	31,881,012	34,097,356	38,800,736	45,474,035	48,239,033
Equity attributable to owners of the Company	23,401,358	24,901,250	25,559,484	30,062,368	32,409,489
Non-controlling interests	8,479,654	9,196,106	13,241,252	15,411,667	15,829,544
	31,881,012	34,097,356	38,800,736	45,474,035	48,239,033

note: The results for each of the two years ended 31 December 2012 and the assets and liabilities as of 31 December 2011 and 2012 are extracted from the consolidated financial statements for the year ended 31 December 2012 and they have been adjusted for the application of amendments to HKAS 12 (see notes to the consolidated financial statements).

The results for each of the three years ended 31 December 2010 and the assets and liabilities as of 31 December 2008, 2009 and 2010 have not been adjusted for the application of amendments to HKAS 12.

PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of the Group's major properties held for investment purposes as at 31 December 2012 are as follows:

Location	Term of lease	Type of use	Group's interest
1. Urban Development International Tower (城開國際大廈) situated at No. 355 Hongqiao Road, Xuhui District, Shanghai, the PRC	Held under a land use right for a term expiring on 7 October 2053	Commercial	41.27%
2. 20 office units on Levels 8, 9 and 10 and 12 car parks situated at No. 333 Zhaojiabang Road, Xuhui District, Shanghai, the PRC	Held under a land use right for a term expiring on 5 December 2042	Commercial and Office	41.27%
3. Levels 1 to 3, Nos. 498 and 500 Lane 388 Pubei Road, Xuhui District, Shanghai, the PRC	Held under a land use right for a term expiring on 30 June 2050	Commercial	41.27%
4. Huimin Commercial Tower (滙民商廈) and non-motor vehicle shed situated at Nos. 111 and 123 Tianyaoqiao Road, Xuhui District, Shanghai. the PRC	Held under a land use right with an unspecified term	Commercial	41.27%
5. Phase 2 of Shanghai Youth City (上海青年城), No. 1519 Husong Road, Jiuting Zhen, Songjiang District, Shanghai, the PRC	Held under a land use right for a term expiring on 8 July 2055	Commercial	69.95%
6. Laochengxiang (老城廂), Lot No. 11 of Laochengxiang Area, Nankai District, Tianjin, the PRC	Held under a land use right for a term expiring on 29 March 2075	Residential, Commercial and Office	69.95%
7. Lot No. B2, Phase I of Top City (城上城), No. 1 Olympic Road, Yuanjiagang, Jiulongpo District, Chongqing, the PRC	Held under a land use right for a term expiring in February 2044	Commercial and Car Park Spaces	69.95%
8. Several levels of Golden Bell Plaza (金鐘廣場), No. 98 Huahai Road Central, Huangpu District, Shanghai, the PRC	Held under a land use right for a term expiring on 18 November 2043	Commercial and Office	57.29%
9. Several levels of commercial and Cultural Complex of Hi Shanghai (海上海), Lane 568 Feihong Road and Nos. 950, 970 and 990 Dalian Road, Yangpu District, Shanghai, the PRC	Held under a land use right for a term expiring on 19 September 2052	Composite	63.65%
10. Commercial Units of Huangpu Estate (黃浦新苑), No. 1130 and Nos. 1-2, Lane 1108, Tibet Road South, Huangpu District, Shanghai, the PRC	Held under a land use right for a term expiring on 9 November 2050	Commercial	63.65%

PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Location	Term of lease	Type of use	Group's interest
11. Several levels of Shanghai Industrial Investment Building (上海實業大廈), No. 18 Caoxi Road North, Xuhui District, Shanghai, the PRC	Held under a land use right for a term expiring on 28 November 2044	Commercial and Office	63.65%
12. Gaoyang Commercial Centre (高陽商務中心), No. 815 Dongdaming Road, Hongkou District, Shanghai, the PRC	Held under a land use right for a term expiring on 5 March 2053	Commercial and Office	63.65%
13. Blocks 1-9, Shanghai United Wool Wearing Factory (上海聯合毛紡織廠), No. 1111 Shangchuan Road, Pudong New District, Shanghai, the PRC	Held under a land use right for a term expiring on 6 March 2056	Industrial Building	63.65%

GLOSSARY OF TERMS

Term used	Brief description
Asia Water	Asia Water Technology Ltd., renamed as SI Environment in November 2012
Chengdu Wingfat Printing	Chengdu Wingfat Printing Co., Ltd.
Chow Tai Fook Group	Chow Tai Fook Enterprises Limited and its subsidiaries
Companies Ordinance	Companies Ordinance (Chapter 32) of the laws of Hong Kong
Company	Shanghai Industrial Holdings Limited
Dali SI Development	Dali SI City Development Co., Ltd.
Director(s)	director(s) of the Company
Dongguan Wingfat Printing	Wingfat Printing (Dongguan) Co., Ltd.
General Water of China	General Water of China Co., Ltd.
Group	the Company and its subsidiaries
Huangshi Kaidi Water Services	Huangshi Kaidi Water Services Co., Ltd.
Hu-Ning Expressway	Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd.
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Luqiao Development	Shanghai Luqiao Development Co., Ltd.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules
Nanfang Water	Nanfang Water Co., Ltd.
Nanyang Tobacco	Nanyang Brothers Tobacco Company, Limited
Net Business Profit	Net profit excluding net corporate expenses
PRC	The People's Republic of China
SFO	Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong
SGX	Singapore Stock Exchange
Shanghai Pharmaceuticals	Shanghai Pharmaceuticals Holding Co., Ltd. (SSE stock code: 601607; HKSE stock code: 2607)
Shanghai Shenda Property	Shanghai Shenda Property Co., Ltd.
Shanghai Shen-Yu	Shanghai Shen-Yu Development Co., Ltd.
Shanghai Urban Development	Shanghai Urban Development (Holdings) Co., Ltd.
Shenzhen Shenyi Design	Shenzhen Shenyi Design Co.
Shenzhen WF Artistic Printing	Shenzhen WF Artistic Printing and Packaging Design Co., Ltd.
SI Development	Shanghai Industrial Development Co., Ltd. (SSE stock code: 600748)
SI Environment	SIIC Environment Holdings Ltd. (formerly known as Asia Water) (SGX stock code: 5GB)
SI Environment Scheme	A share option scheme adopted by SI Environment as approved at the general meeting held on 24 January 2005. Such scheme was terminated at the extraordinary general meeting of SI Environment held on 27 April 2012
SI Environment New Scheme	A new share option scheme adopted by SI Environment as approved at the extraordinary general meeting held on 27 April 2012

GLOSSARY OF TERMS

SI Urban Development	Shanghai Industrial Urban Development Group Limited (HKSE stock code: 563)
SI Urban Development Scheme	A share option scheme adopted by SI Urban Development as approved at the extraordinary general meeting held on 12 December 2002
SIHL Scheme	A share option scheme adopted by the Company as approved at the extraordinary general meeting held on 31 May 2002. Such scheme was terminated at the extraordinary general meeting of the Company held on 25 May 2012
SIHL New Scheme	A new share option scheme adopted by the Company as approved at the extraordinary general meeting held on 25 May 2012
SIIC	Shanghai Industrial Investment (Holdings) Company Limited
SSE	Shanghai Stock Exchange
Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited
SUD Green Carbon Fund	SUD Green Carbon (Tianjin) Shareholdings Investment Fund Joint Venture
United Environment	United Environment Co., Ltd.
Wanyuan Real Estate	Shanghai Wanyuan Real Estate Development Co., Ltd.
Wuhan Kaidi Water Services	Wuhan Kaidi Water Services Co., Ltd.
Wing Fat Printing	The Wing Fat Printing Company, Limited
Zhejiang Tianwai	Zhejiang Tianwai Packaging and Printing Co., Ltd.

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Shanghai Industrial Holdings Limited
26th Floor, Harcourt House
39 Gloucester Road, Wanchai, Hong Kong.
Telephone : (852) 2529 5652
Facsimile : (852) 2529 5067
www.sihl.com.hk