



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)



Shaping our future

Annual Report 2016



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wang Wei (*Chairman*)
Mr. Zhou Jun (*Vice Chairman & Chief Executive Officer*)
Mr. Xu Bo (*Deputy CEO*)
Mr. Xu Zhan

Independent Non-Executive Directors

Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis
Mr. Cheng Hoi Chuen, Vincent
Mr. Yuen Tin Fan, Francis

BOARD COMMITTEES

Executive Committee

Mr. Wang Wei (*Committee Chairman*)
Mr. Zhou Jun
Mr. Xu Bo

Audit Committee

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

Remuneration Committee

Prof. Woo Chia-Wei (*Committee Chairman*)
Mr. Leung Pak To, Francis
Mr. Cheng Hoi Chuen, Vincent
Mr. Yuen Tin Fan, Francis
Mr. Li Han Sheng
Mr. Tang Ming

Nomination Committee

Prof. Woo Chia-Wei (*Committee Chairman*)
Mr. Leung Pak To, Francis
Mr. Cheng Hoi Chuen, Vincent
Mr. Yuen Tin Fan, Francis
Mr. Li Han Sheng
Mr. Tang Ming

COMPANY SECRETARY

Mr. Yee Foo Hei

QUALIFIED ACCOUNTANT

Mr. Lee Kim Fung, Edward

AUTHORISED REPRESENTATIVES

Mr. Zhou Jun
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

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BNY Mellon Shareowner Services
P.O. Box 358516,
Pittsburgh, PA 15252-8516, USA
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Toll free (USA) : (1) 888 BNY ADRS
Website : www.bnymellon.com/shareowner
Email : shrrelations@bnymellon.com



INFORMATION FOR SHAREHOLDERS

SHAREHOLDER ENQUIRIES

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39 Gloucester Road
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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 : 22nd Floor, Hopewell Centre
183 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 2016 final dividend of HK46 cents (2015: HK45 cents) per share will be paid to shareholders on or about Friday, 9 June 2017 subject to shareholders' approval.

Subject to approval by shareholders of the final dividend and together with the 2016 interim dividend of HK36 cents (2015: HK36 cents) per share and the special dividend HK10 cents paid during the year, total dividends for the year amounts to HK92 cents (2015: HK81 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 from Wednesday, 17 May 2017 to Monday, 22 May 2017, both days inclusive, during which period no transfer of shares will be effected. 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 Tuesday, 16 May 2017.

For the purpose of determining shareholders' entitlement to the final dividend, the register of members of the Company will be closed on Monday, 29 May 2017, 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, 26 May 2017.

FINANCIAL CALENDAR

2016 interim results announced	31 August 2016
2016 final results announced	29 March 2017
Despatch of 2016 annual report	on or about 18 April 2017
2017 annual general meeting	22 May 2017
Ex-dividend date for 2016 final dividend	25 May 2017
Record date for 2016 final dividend	29 May 2017
Despatch of notice of 2016 final dividend	on or about 9 June 2017

CHAIRMAN'S STATEMENT



Wang Wei
Chairman

I am pleased to report to our shareholders the results of the Group for 2016.

During the year, the market was extremely volatile domestically and overseas with rapid changes in the global political and economic environment. Against this scenario, the Board and the management of the Group have made considerable efforts to integrate its financing activities and business operations and continued to focus on its principal businesses – infrastructure facilities, real estate and consumer products. These core businesses have also been further strengthened to improve operational efficiency. In addition, the Group has achieved stable growth for its business segments through developing new business arenas and enhancing its internal control. Capitalizing on activities in the capital market, the Group has also increased mergers and acquisitions activities and completed a number of material projects, building an excellent asset structure and laying a solid foundation for its long-term development.

For the year ended 31 December 2016, the Group's net profit amounted to HK\$2,903 million, representing a year-on-year increase of 2.7% as compared to last year. The increase was mainly attributable to stable profitability growth for the year of our infrastructure facilities and consumer products businesses. The Group's total revenue amounted to HK\$22,132 million, representing a year-on-year increase of 12.4%.

The Board of Directors has recommended a final dividend of HK46 cents (2015: HK45 cents) per share for 2016. Together with an interim dividend of HK36 cents (2015: HK36 cents) per share and a special dividend of HK10 cents per share paid during the year, total dividends for the year amounted to HK92 cents (2015: HK81 cents) per share.

During the year, the Group continued to build up a good momentum for the development of its three core businesses and achieve satisfactory growth. Of these, the toll roads business maintained a strong cash flow, water services business expanded rapidly, and the infrastructure facilities business recorded a profit of HK\$1,397 million, representing a year-on-year increase of 22.9%. Furthermore, the toll roads and water services businesses acquired a number of high-quality assets through capital injections from the parent company as well as mergers and acquisitions in the market, further strengthening profitability for its core businesses.



CHAIRMAN'S STATEMENT

The real estate business recorded a profit of HK\$752 million for the year on the back of rapid developments in the domestic real estate market. It however represented a decrease of 15.4% over the previous year which was mainly attributable to extra profits recorded for the disposal of a 10% interest in the Four Season Hotel Shanghai during the last financial year. Excluding the impact from the extra gains, profits actually increased by 2.5% over last year.

The consumer products business maintained steady growth against a difficult external environment, recording a net profit of HK\$1,075 million, representing a year-on-year increase of 2.5%.

INFRASTRUCTURE BUSINESS – CONTINUING TO GROW AND EXPAND ITS ASSET SIZE

In September 2016, the Group acquired 23.0584% interests of Bridge Company from its parent company at a consideration of HK\$1,803 million. This connected transaction was approved unanimously by the independent shareholders of the Company at an extraordinary general meeting. The acquisition has resulted in the injection of high-quality assets into the Group's toll road business, helping to enhance its future profitability.

During the year, the Group's three existing high-quality toll roads continued to generate stable cash flow and recorded sustained growth. Traffic flow and revenue also increased overall, benefiting from a rising number of cars and tourist traffic. Considerable efforts were made to improve operational efficiency such as enhancing management standards for its roads, improving road maintenance and monitoring and to effectively prevent traffic jams.

For the water services business, the Group continued to expand its asset size as planned and to improve the quality of its assets, further consolidating its market share in the industry.

In October 2016, the Company and SI Environment acquired 20.2344% and 32.6562% shareholding interests – totaling 52.8906% in Longjiang Environmental for a cash consideration of RMB518 million and RMB836 million, respectively. Together with the 42.1094% shareholding interests already held by the Group, the acquisition brought the Group's shareholding interests in Longjiang Environmental to 95%. In February 2017, a further acquisition of a 3.75% interest in Longjiang Environmental from an independent third party for a cash consideration of RMB96 million was made, bringing the Group's shareholding interests to 98.75%. Longjiang Environmental is a leading company in the water services industry in Heilongjiang, and such acquisition represents an important strategic move in respect of the Group's investments in the water services industry in the northeast China region.

To increase the scale of investment of its water and environmental operations, in January 2017, the Company subscribed for 350,000,000 shares in SI Environment at S\$0.63 per share, upon which the Company will hold approximately 45.95% of SI Environment's enlarged issued share capital. The acquisition is now pending approval from independent shareholders of SI Environment.

In addition, in February 2017, the Company subscribed for 300,000,000 shares in Canvest Environmental at HK\$3.50 per share. The total investment is HK\$1,050 million. Together with the 2.42% shareholding interests originally held by SI Environment, the Group holds a total of 15.28% interest in Canvest Environmental after the subscription. Canvest Environmental is a leading waste-to-energy enterprise. The increase in shareholding in the company represents a significant move for the Group's infrastructure sector in the adjustment of its investment strategy in solid waste projects.

Through Shanghai Galaxy and Galaxy Energy, the Group has wholly owned or is now owning controlling shares of eleven photovoltaic power generation projects nationwide, with a total asset scale reaching 560MW, an increase of 50MW from last year. Among which, an aggregate of 410MW are qualified to obtain governmental subsidies on electricity price.

REAL ESTATE BUSINESS – OPTIMISING ITS ASSET STRUCTURE AND ENHANCING OPERATIONAL EFFICIENCY

During the year, the Group's real estate enterprises capitalized on opportunities arising from rapid developments of the property market and achieved satisfactory results. This has been achieved through effectively strengthening its business development and marketing capabilities as well as improving the quality of its assets and streamlining its asset portfolio. At the same time, efforts were made to promote the development of emerging industries and to prevent operational risks.

The private placement of SI Development was completed satisfactorily, raising a total proceed of RMB3,902 million for the Group. Accordingly, the proportion of the Company's shareholding in SI Development was diluted from 63.65% to 48.60%. In addition, SI Development issued corporate bonds with grade AA ratings amounting to RMB1,000 million at a very low coupon rate of 3.23% for the prevailing period, resulting in the improvement of its financial structure. During the period, a total of 426,000,000 shares from the company's capital reserve was converted to its share capital at a ratio of 3 shares for every 10 shares for its shareholders, raising the total share capital of the company to 1,845,000,000 shares. While enhancing its share capital, the company also shared its operating rewards with its investors.

CHAIRMAN'S STATEMENT

In 2016, SI Urban Development disposed of its 35% and 40% interests in the U Center in Shanghai by way of withdrawing from the Green Carbon Fund and public bidding respectively, bringing a total pre-tax disposal gain of approximately RMB2,000 million to Shanghai Urban Development. During the same period, Shanghai Urban Development issued a six-year term corporate bond package amounting to RMB1,700 million at a rate of 3.9% while SI Urban Development obtained a loan of RMB3,000 million from a syndicate of banks at a rate of 3.8% respectively. The proceeds of such financing arrangements will be used partly for the repayment of shareholder's loans denominated in foreign currencies, and partly to optimize SI Urban Development's debt structure and to minimize the impact of the fluctuation of the RMB exchange rate on it.

To enhance the quality of its land reserves at a reasonable cost and to consolidate its strategy of focusing on developments in Shanghai, SI Urban Development acquired Contemporary Art Villas and Contemporary Splendour Villas in 2016 at a consideration of RMB2,350 million. Both residential villa developments are located in Minhang District, Shanghai with a respective site area of 116,308 sq.m. and 120,512 sq.m. The residential portion of TODTOWN Phase 1 under the metro superstructure project jointly developed by SI Urban Development, Sun Hung Kai Properties and the Shanghai government, are planned to be launched in 2017.

CONSUMER PRODUCTS BUSINESS – EXPANDING NEW ARENAS AND PROMOTING OPERATIONAL EFFICIENCY

In 2016, Nanyang Tobacco experienced considerable changes in the external environment. Through continuous improvement of equipment technology, the company increased production capacity, reduced costs and enhanced efficiency. It also strived to optimise its product mix, and has met the target of successive growth in total sales volume, sales revenue and net profit.

For Wing Fat Printing, despite unfavourable conditions in the tobacco and wine packaging markets, the company achieved satisfactory results as the exquisite-moulded fiber-packaging box manufacturing base was built and put into operation as scheduled. In the second half of the year, Wing Fat achieved better operating efficiency and moved a big step forward towards the company's strategic business transformation.





CHAIRMAN'S STATEMENT

PROSPECTS

The Group will continue to streamline the management of its infrastructure business and make considerable efforts to constrain cost and increase efficiency. Plans will also be made to promote the integration of its financing activities and business operations in order to enhance capital return. For the water services business, we will continue to promote acquisitions and mergers in an orderly manner through capital operation to further increase its asset size while continuing to explore new business areas.

For real estate, the Group has laid a firm foundation for this business by restructuring and revitalization of its assets over the past few years. Following rapid developments of the mainland market in 2016, the real estate market is expected to face challenges such as potential regulatory policies imposed on the real estate sector and fluctuations in the capital markets in Europe and the United States in the coming year. Under the circumstances, the Group will carefully monitor the pace of its development, further revitalize its assets and accelerate the operation and efficiency of its commercial assets platform. It will also expand the size of emerging industries to create higher returns for the Company.

Nanyang Tobacco will maintain its leading position in technology, strengthen its internal management, control cost, and prevent exchange risk. Wing Fat Printing will strive to lift service standards and profitability of its traditional cigarette and wine packaging businesses, and at the same time enhancing its market expansion capability, R&D capability and investment returns for its new exquisite-moulded fiber business.

Finally, 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.

Wang Wei
Chairman

Hong Kong, 29 March 2017



SIHL AT A GLANCE

Shanghai Industrial Holdings Limited (“SIHL”, HKSE stock code: 363) was incorporated in Hong Kong in January 1996, and on 30 May of the same year was listed on the Stock Exchange of Hong Kong. SIHL is a constituent stock of the MSCI China Index and Hang Seng Composite Index, and an eligible stock of Shanghai-Hong Kong Stock Connect. As at the end of 2016, the company's total assets reached HK\$151.2 billion and profit attributable to ordinary shareholder was HK\$2.903 billion.

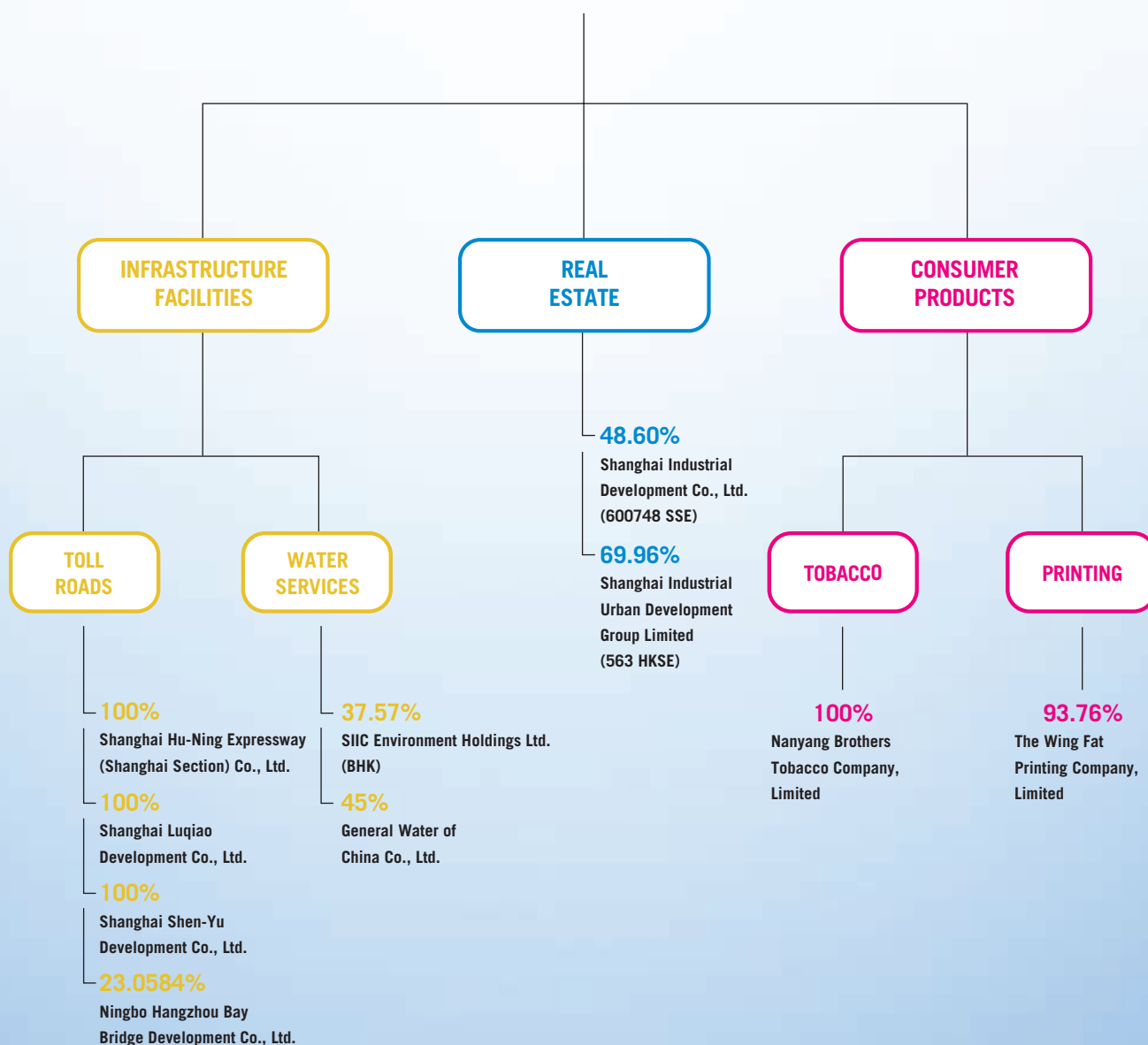
Shanghai Industrial Investments (Holdings) Co., Ltd (“SIIC”), the controlling shareholder with about a 59% shareholding of SIHL, is the largest overseas conglomerate enterprise under the Shanghai municipal government. As the flagship in the SIIC group of companies, SIHL has been successful in leveraging its Shanghai advantage since its listing, in terms of securing the best investment opportunities in Shanghai, with the full support of its parent company.

Over the past 20 years, SIHL has established an investment portfolio by means of mergers and acquisitions, involving a number of quality assets in the core business divisions. Today, SIHL has secured its unique position as a leading red chip company in Hong Kong with three core businesses, infrastructure facilities, real estate and consumer products. Looking forward, we will work hand in hand with our stakeholder, striving to create favourable returns and value for shareholders.



GROUP BUSINESS STRUCTURE

As at 29 March 2017

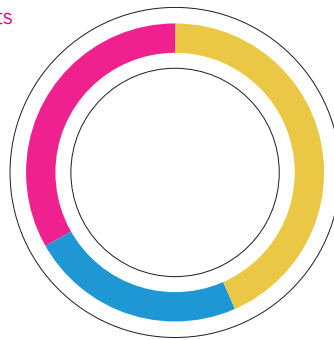


BUSINESS REVIEW, DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, the audited profits attributable to shareholders of the Group were HK\$2,903 million, representing a year-on-year increase of 2.7%. The increase was mainly attributable to stable growth in profits from the Group's infrastructure and consumer products businesses. A revenue of HK\$22,132 million was recorded for the year, representing a 12.4% increase over last year. During the year, the Group strengthened its acquisitions and mergers activities and concluded a number of significant projects through capital market operations. Emerging businesses were continued to be explored to create profit growth drivers for the future. All in all, the Group expanded the size of its principal business, further optimized its capital structure and maintained stable profit growth, achieving its operation indicators for the whole year.

Profit contribution from the Group's core business

Consumer Products
33.3%



Infrastructure
Facilities
43.4%

Real Estate
23.3%





BUSINESS REVIEW, DISCUSSION AND ANALYSIS

INFRASTRUCTURE FACILITIES

During the year, the infrastructure facilities business contributed a profit of HK\$1,397 million to the Group, representing an increase of 22.9% over last year and accounting for 43.4% of the Group's Net Business Profit. Maintaining its growth momentum for the year, the Group added a number of quality assets to its toll roads and water services businesses through capital injection from the parent company and external acquisitions. Such acquisitions are expected to improve the profitability of the infrastructure sector in the coming years.

Toll roads

As at the end of September 2016, the Group further enhanced the asset portfolio of its infrastructure business and acquired 23.0584% interests of Bridge Company indirectly held by the parent company at a consideration of HK\$1,803 million. This connected transaction has been approved unanimously by the independent shareholders of the Company at an extraordinary general meeting and was completed by the end of 2016. In line with the development strategy for the toll roads business of the Group, the acquisition of the project is expected to increase the contribution of toll road revenues and enhance operating profits for the infrastructure business segment. The toll revenue and traffic flow of the Hangzhou Bay Bridge increased 11.15% and 8.07% year on year respectively in 2016.

The Hangzhou Bay Bridge is one of the world's longest ocean-crossing bridge spanning across the Hangzhou Bay sea area in China, connecting Haiyan, Jiaxing in the north and Cixi, Ningbo in the south of Zhejiang. An important road network in the eastern coastal region of China connecting Shanghai and Ningbo, the Hangzhou Bay Bridge falls within the grade of expressway with dual six-lane expressways which is approximately 35.673 kilometres long with a designed speed of 100 kilometres per hour. Ancillary facilities including two service areas, one sea observation deck, one toll station and one monitoring station are available on the bridge. The Hangzhou Bay Bridge commenced operation in May 2008 with an operating period of 25 years until 30 April 2033.



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Apart from the above acquisition, the Group's three toll roads in Shanghai saw stable operation and brought steady cash flow to the Group each year. Overall growth in traffic flow and toll revenue was maintained during the year. The operation of roads was kept in order with safety and soundness despite huge passenger flows during holidays. The key operating data of our three toll roads in 2016 are as follows:

Toll roads	Net profit from project company	Changes	Toll revenue	Changes	Traffic flow (vehicle journeys)	Changes
Jing-Hu Expressway (Shanghai Section)	HK\$307 million	+4.6%	HK\$690 million	+5.0%	53.97million	+15.6%
Hu-Kun Expressway (Shanghai Section)	HK\$400 million	+8.3%	HK\$1,027 million	-0.3%	54.60 million	+6.9%
Hu-Yu Expressway (Shanghai Section)	HK\$176 million	+1.5%	HK\$525 million	-1.6%	43.59 million	+9.9%
Total	HK\$883 million	+5.6%	HK\$2,242 million	+1.0%	152 million	+10.7%

Jing-Hu Expressway (Shanghai Section) recorded rapid growth due to the overall growth in car traffic and the high year-on-year growth in traffic flow of the Jiamin station. The toll revenue for the expressway also increased, benefiting from adjustments to mileage charge for toll expressways in Shanghai which began in mid-July 2015. During the year, the north section of Jiamin Elevated Highway was extended to the Hu-Xiang Expressway. Along with this, the lane layout and traffic optimization for the expressway were also completed at the same time. An electronic toll collection (ETC) lane to the urban area of Jiading was added, helping to improve the road capability and solve traffic jams especially at road junctions. Smooth road operation was thus ensured. As ETC traffic flow accounted for a high proportion of the traffic at the Jiangqiao toll station, the project company also improved and transformed ETC lanes to maximize their functions. In addition to ensuring safe operations of the roads, special repairing was carried out and consolidation of slopes to bridges and roadbed slopes were conducted to effectively improve the quality of roads. The project company will continue to pay attention to changes in traffic flow at Jiamin Elevated Highway and other toll stations and streamline job assignments for toll collectors to further reduce operating costs in the following year.





BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Hu-Kun Expressway (Shanghai Section) maintained stable growth in traffic flow during the year as a result of such favourable factors as continuous good weather throughout the year, an increase in travelling passengers and a steady increase in traffic volume for small passenger cars during holidays. Enhanced toll operation management by the company, such as the implementation of measures throughout the year to prevent traffic jams and ensure smooth operation also contributed to the growth. As a result, the operation of the expressway remained stable, safe and orderly during the year, with no major traffic jams and accidents during major holidays and the G20 Hangzhou Summit. In addition, the project company also conducted well-targeted maintenance work to enhance the repairing and maintenance system and strengthened the management of mechanical and electronic equipment and facilities in accordance with the annual plans and ensured the normal operation of the roads, equipment and facilities. It also strengthened management on safety standards during the year to implement safety responsibilities, strengthen the safety awareness of its staff and improve the capacity on risks prevention and control.

Benefiting from continuous growth in motor vehicle parc and increases in travelling, the traffic flow of Hu-Yu Expressway (Shanghai Section) recorded steady growth in traffic flow. With the development of the urban area of Qingpu, traffic flow at the toll station in the area saw rapid growth resulting in relatively serious traffic jams particularly during holidays. During the year, the project company improved and transformed the station in order to overcome such situation. While improving car capacity at the exit square, it also added variable lanes and allowed two toll stations for one car lane, which ensured smooth traffic operation at the road junctions and significantly reduced traffic jams. In addition, thanks to the positive contributions brought by competitions on solving traffic jams, the average traffic operation of all lanes increased 19.55% during peak hours. The construction of the new Jiudu Road toll station and the renovation of the ramp of Huting North Road were under smooth progress, both of which have commenced full operation at the end of June, 2016. As a result of continuous growth in road traffic flow, repairing on ancillary facilities to bridges was conducted during the year and newly constructed intelligence systems on road maintenance were put into service to further improve maintenance standards.

Water services

During the year, the Group further acquired quality water service assets, strengthening its water treatment capacity and enhancing the quality of its assets. While stabilizing its market share, the Group will continue to invest more resources in water services projects and enter capital markets in different regions when opportunities arise to further expand the size of its business.

In October 2016, a wholly-owned subsidiary of the Company and wholly-owned subsidiaries of SI Environment acquired 20.2344% and 32.6562% shareholding interests totalling 52.8906% in Longjiang Environmental for a cash consideration of RMB518 million and RMB836 million respectively. In addition to the 42.1094% shareholding interests already held by the Group, the new acquisitions brought its total shareholding interests in Longjiang Environmental to 95%, which will be consolidated into the Group's account. In February 2017, a wholly-owned subsidiary of the Company and an independent third party signed an agreement for the indirect acquisition of 12,000,000 shares of Longjiang Environmental for a consideration of RMB96 million, representing a 3.75% shareholding interests in Longjiang Environmental. With the completion of the transaction, the Group now holds 98.75% shareholding interests in Longjiang Environmental.

As a leading enterprise in the water services industry in Heilongjiang, Longjiang Environmental is principally engaged in the business of development and operation of environmental protection related projects and operation and construction of water supply network. Currently, there are 41 projects under operation or construction. It has a total water treatment and planned supply daily capacity of 355 tonnes and sludge handling design daily capacity of 1,330 tonnes. The acquisition represents an important move in respect of the Group's investment in the water services industry in the northeast China region. Having progressively increased its shareholdings in Longjiang Environmental and invested in the water services industry of the Heilongjiang Province, the Group believes that the move can increase its market share and enhance its position in the water and environmental protection industry in China.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

The Group has strived to increase the scale of its investment in water and environmental operations to accelerate its growth. In January 2017, the Company and SI Environment entered into an agreement to subscribe for 350,000,000 new shares in SI Environment at a placement price of S\$0.63 per placement share. As at the date of this report, the Company owned approximately 37.57% of SI Environment. Upon completion, the Company will indirectly hold approximately 45.95% of SI Environment's enlarged issued share capital while SI Environment will remain a subsidiary of the Company upon completion. The Company considers that the subscription of such shares and the increase in shareholdings in SI Environment is in line with the Group's development strategy to expand its infrastructure facilities business. The acquisition is now pending approval from independent shareholders at a special general meeting to be held by SI Environment.

In addition, the Company, through its wholly-owned subsidiary, and Canvest Environmental, a company listed in Hong Kong, entered into an agreement in February 2017, pursuant to which it will subscribe for 300,000,000 new ordinary shares of Canvest Environmental at HK\$3.50 per share. The total investment is HK\$1,050 million and the transaction was completed. Considering that SI Environment already holds 2.42% of Canvest Environmental's enlarged issued share capital, the Group now holds 15.28% of Canvest Environmental's enlarged issued share capital, and has nominated a non-executive director in Canvest Environmental. Both parties will work together strategically to expand the waste-to-energy businesses.

As a leading waste-to-energy enterprise, Canvest Environmental is principally engaged in the development, construction, management and operation of waste-to-energy plants. It currently owns 12 waste-to-energy projects, nine of which are in Guangdong Province, two in Guangxi Zhuang Autonomous Region and one in Guizhou Province. The increase in the shareholding interests of Canvest Environmental is a significant move in the adjustment of the investment strategy in solid waste projects in the infrastructure segment of the Company. The Group will make better use of its internal resources and brand to invest in the solid waste market and develop and build solid waste investment projects in future.





BUSINESS REVIEW, DISCUSSION AND ANALYSIS

SI Environment

SI Environment recorded a revenue of RMB2,648 million for 2016, representing a significant year-on-year growth of 46.8%. The increase in revenue was mainly attributable to the municipal construction revenue increase from the newly constructed BOT projects (such as the reconstruction project in Hanxi, Wuhan and phase III of the water treatment project in Meihu, Huizhou) and revenue contributions from the newly acquired Yiyang Water Supply Co., Ltd. and Longjiang Environmental. Profit for the year increased by 26.2% year-on-year to RMB455 million, mainly due to profit contributions from the newly constructed BOT projects and the newly acquired Fudan Water and Longjiang Environmental as well as its existing projects. As at the end of 2016, SI Environment has treated over 10,000,000 tonnes of water. Going forward, the Group will continue to invest in sewage treatment and solid waste projects and other environmental protection-related projects and will move forward the construction of existing operations and implement measures to upgrade the size and profitability of its projects. Suitable acquisition projects with strategic significance will be sought.

As mentioned above, SI Environment acquired a total of 32.6562% shareholding interests in Longjiang Environmental in October 2016. As it has held 25.3125% shareholding interests, SI Environment now holds a total of 57.9687% shareholding interests in Longjiang Environmental. The transactions are expected to increase the profit contribution of Longjiang Environmental to SI Environment. In addition, another wholly-owned subsidiary of SI Environment signed an equity transfer agreement in September 2016. It acquired 60% shareholding interests in Ranhill Water with RMB273.9 million. Ranhill Water has operated ten sewage treatment plants in Jiangxi, Anhui and Henan provinces in China with a total designed daily sewage treatment capacity of 260,000 tonnes.

In April 2016, Fudan Water and the Commission of Housing and Urban-Rural Development of Suizhou City entered into a franchise agreement, pursuant to which the newly constructed project will have a sewage treatment daily capacity of 50,000 tonnes and the quality of water generated will reach class I A of the Integrated Sewage Discharge Standard. The total investment for the project is approximately RMB99.98 million with a franchise period of 25 years. In July, Fudan Water increased its investments in Henan Zhonghui Joint Investment Co., Ltd. with RMB308.07 million. It held 75% interest in the company after the capital increase. Currently, the company has operated three projects with a total designed daily sewage treatment capacity of 100,000 tonnes and a total designed daily sludge treatment capacity of 400 tonnes. In August, Fudan Water increased its investments in Wulian New Energy Environmental Protection and Power Generation Co., Ltd. with RMB45 million. It held 90% interest in the company after the capital increase. The company has obtained the franchise for waste-to-energy power generation from the People's Government of Wulian County with a total designed daily capacity of 600 tonnes.



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In March 2016, Taizhou Kaidi Sewage Treatment Co., Ltd., a wholly-owned subsidiary of SI Environment, entered into a franchise agreement on the phase I sewage treatment plant in the Coastal Chemical Medicine Park in Zhejiang Province and its ancillary pipe network project. The long-term plan of the project is to reach a daily sewage treatment capacity of 50,000 tonnes, beginning from a daily capacity of 12,500 tonnes now to 25,000 tonnes. The current project will be reconstructed to enhance the quality of water generated to class II of the Integrated Sewage Discharge Standard. The total consideration of the project is tentatively set at RMB162 million with a franchise period up to July 2028.

General Water of China

General Water of China recorded a revenue of HK\$1,942 million for the year with a year-on-year increase of 8.6%. Net profits amounted to HK\$182 million, a year-on-year increase of 71.5%. As at the end of 2016, the company owned 30 water supply facilities and 27 sewage treatment plants with a total daily capacity of 6,632,500 tonnes, among which, water production daily capacity totalled 4,265,000 tonnes and daily sewage treatment capacity was 2,367,500 tonnes, and two reservoirs with a gross storage tank volume of 182.32 million tonnes and a pipe network of 6,030 kilometres in total. General Water of China has been awarded the Top 10 Most Influential Enterprises in China's Water Industry for the 13th consecutive year.

During the year, General Water of China has formulated new marketing strategies "To deepen regional operations" and assigned regional professionals in Wenzhou, Huzhou, Shenzhen, Bengbu, Suzhou, Xiangtan, Xiangyang, Suifenhe and other cities to track and put into place respective programmes there. In addition, a development model that capitalizes on "regional links and expansion" has been implemented. Besides successfully winning the bidding for a PPP (public-private-partnership) programme in Bianbei, Suzhou City, Anhui Province, the company also made satisfactory achievements in Hunan, Zhejiang and other provinces. The development of Phase II of wastewater treatment programme in Huzhou, the alteration and expansion of the sewage treatment project in Xiangtan and other projects were also under smooth progress. All key regions altogether achieved a new daily capacity of 800,000 tonnes. While deepening the operation in current markets, the company also actively expanded into new regional markets.

In January, General Water of China established a PPP (public-private-partnership) joint venture for the investment in the Suzhou Bianbei sewage treatment plant and its ancillary pipe network project with a total investment of approximately RMB310 million. General Water of China contributed a registered capital of RMB100 million, accounting for 80% equity interest. The total investment in the construction of the Bianbei phase I sewage treatment project is RMB125 million with a daily capacity of 50,000 tonnes. The total investment in the ancillary drainage facilities (including sewage pipe network and pump stations) is RMB185 million with a pipe network of 99.61 kilometres and three sewage treatment pump stations.

Since the beginning of the flood season, Huzhou has seen sufficient rainfalls and the flood control has become serious. As at the end of December, the reservoir in Tiger Lake has released a total of 8,605 cubic metres, which gave full play on the flood control function of the reservoir and has ensured safety in flood control. During the year, General Water of China's reservoir project in Tiger Lake, Huzhou, passed safety verifications on the dam of the reservoir conducted by a committee consisting of irrigation specialists in the Zhejiang Province and Huzhou City and was appraised as a "Class I" dam. The sludge drying and waste incineration project under General Water of China, the first semi-dried sludge treatment production line in the PRC, has completed trial run and begun commercial operation.



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Details of the water development projects of the Group as at 31 December 2016 are as follows:

	Province	Projects of SI Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SI Environment	Project progress
Sewage treatment/Reclaimed water treatment projects						
1	Auhui	Sewage treatment plant project in Chemical Industrial Park, Hefei	Sewage treatment	30,000	60%	The project is in operation.
2	Auhui	Sewage treatment engineering project in Xiatang Industrial Park, Hefei	Sewage treatment	20,000	60%	The project is under construction.
3	Fujian	Sewage treatment plant BOT project in Longmen Town, Anxi, Quanzhou	Sewage treatment	50,000	91.203%	<ul style="list-style-type: none"> Phase I of the project is in operation. Phase II of the project is yet to commence construction.
4	Guangdong	Sewage treatment plant BOT project in Dalang, Dongguan	Sewage treatment	100,000	75.5%	The project is in operation.
5	Guangdong	Sewage treatment plant BOT project in Shayao, Shijie, Dongguan	Sewage treatment	60,000	75.5%	The project is in operation.
6	Guangdong	Sewage treatment plant in Yantian, Fenggang, Dongguan	Sewage treatment	50,000	75.5%	The project is in operation.
7	Guangdong	Phase I and phase II of sewage treatment BOT project in Sanzhou, Changan, Dongguan	Sewage treatment	150,000	35.478%	The project is in operation.
8	Guangdong	Sewage treatment BOT project in Xinmin, Changan, Dongguan	Sewage treatment	100,000	30.410%	The project is yet to commence construction.
9	Guangdong	Phase I, phase II and phase III of sewage treatment project in Meihu, Huizhou	Sewage treatment	300,000	91.203%	<ul style="list-style-type: none"> Phase I and phase II of the project are in operation. Phase III of the project is under construction.
10	Guangdong	Sewage treatment projects in Longgang, Shenzhen	Sewage treatment	280,000	91.203%	The project is in operation.
11	Guangdong	Water recycling plant project in Henggang, Shenzhen	Reclaimed water treatment	50,000	91.203%	The project is in operation.
12	Guangdong	Sewage treatment plant project in Banxuegang, Shenzhen	Sewage treatment	40,000	91.203%	The project is in operation.
13	Guangdong	Sewage treatment plant project in Guanlan, Shenzhen	Sewage treatment	260,000	54.722%	The project is in operation.
14	Guangdong	Sewage treatment emergency operation entrustment project in Guanlan River, Shenzhen	Sewage treatment	400,000	54.722%	The project is in operation.
15	Guangdong	Sewage treatment plant TOT project in Wuchuan, Zhanjiang	Sewage treatment	40,000	91.203%	The project is in operation.
16	Guangxi	City sewage treatment plant BOT project in Beiliu	Sewage treatment	40,000	75.5%	The project is in operation.
17	Heilongjiang	Sewage treatment plant TOT project in Anda	Sewage treatment	45,000	57.7109%	The project is in operation.



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Province	Projects of SI Environment (continued)	Project type	Daily production capacity (tonnes)	Interest attributable to SI Environment	Project progress
Sewage treatment/Reclaimed water treatment projects					
18	Heilongjiang Sewage treatment plant TOT project in Baoqing	Sewage treatment	20,000	57.9687%	The project is in operation.
19	Heilongjiang City sewage treatment plant no. 2 project in Fujin	Sewage treatment	10,000	57.9687%	The project is under construction.
20	Heilongjiang Sewage treatment plant BOT project in Fujin	Sewage treatment	15,000	57.1307%	The project is in operation.
21	Heilongjiang Phase I of sewage treatment plant TOT project in Acheng, Haerbin	Sewage treatment	50,000	57.9687%	The project is in operation.
22	Heilongjiang Phase II of sewage treatment plant BOT project in Acheng, Haerbin	Sewage treatment	50,000	57.9687%	The project is under construction.
23	Heilongjiang Sewage treatment operation entrustment project in Hulan, Haerbin	Sewage treatment	20,000	57.9687%	The project is in operation.
24	Heilongjiang Sewage treatment plant BOT project in Pingfang, Haerbin	Sewage treatment	150,000	57.3241%	The project is in operation.
25	Heilongjiang Sewage treatment plant BOT project in Taiping, Haerbin	Sewage treatment	325,000	57.9687%	The project is in operation.
26	Heilongjiang Sewage treatment plant TOT project in Wenchang, Haerbin	Sewage treatment	325,000	57.9687%	The project is in operation.
27	Heilongjiang Upgrading BOT project in Wenchang, Haerbin	Sewage treatment	650,000	57.9687%	The project is in operation.
28	Heilongjiang Sewage treatment plant BOT project in Xinyi, Haerbin	Sewage treatment	100,000	57.3241%	The project is in operation.
29	Heilongjiang Sewage treatment plant BOT project in Heihe	Sewage treatment	25,000	57.5819%	The project is in operation.
30	Heilongjiang Sewage treatment plant BOT project in Jixi	Sewage treatment	50,000	57.9687%	The project is in operation.
31	Heilongjiang Phase II of sewage treatment plant BOT project in Jixi	Sewage treatment	50,000	57.9687%	The project is under construction.
32	Heilongjiang Sewage treatment plant BOT project in eastern Jiamusi	Sewage treatment	60,000	56.3572%	The project is in operation.
33	Heilongjiang Phase II of sewage treatment plant BOT project in eastern Jiamusi	Sewage treatment	40,000	56.3572%	The project is under construction.
34	Heilongjiang Sewage treatment plant BOT project in western Jiamusi	Sewage treatment	50,000	56.3572%	The project is in operation.
35	Heilongjiang Sewage treatment plant TOT project in Mudanjiang	Sewage treatment	100,000	57.9687%	The project is in operation.
36	Heilongjiang Phase II of sewage treatment plant BOT project in Mudanjiang	Sewage treatment	100,000	57.9687%	The project is in operation.
37	Heilongjiang Sewage treatment plant BOT project in Ningan	Sewage treatment	20,000	57.5389%	The project is in operation.



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Province	Projects of SI Environment (continued)	Project type	Daily production capacity (tonnes)	Interest attributable to SI Environment	Project progress
Sewage treatment/Reclaimed water treatment projects					
38	Heilongjiang Sewage treatment plant TOT project in Shangzhi	Sewage treatment	40,000	57.9687%	The project is in operation.
39	Heilongjiang Sewage treatment plant TOT project in Shuangyashan	Sewage treatment	50,000	57.9687%	The project is in operation.
40	Heilongjiang Phase II of sewage treatment plant BOT project in Shuangyashan	Sewage treatment	50,000	57.9687%	The project is in operation.
41	Heilongjiang Sewage treatment operation entrustment project in Youyi, Shuangyashan	Sewage treatment	10,000	57.9687%	The project is in operation.
42	Heilongjiang Combined BOT project in Shaodong	Sewage treatment	50,000	57.1307%	The project is in operation.
43	Heilongjiang Sewage treatment plant no. 2 project in Shaodong	Sewage treatment	20,000	57.1307%	The project is under construction.
44	Heilongjiang Water recycling acquisition project in Jiamusi	Reclaimed water treatment	40,000	56.3572%	The project is yet to commence construction.
45	Heilongjiang Phase II of sewage treatment plant project in western Jiamusi	Sewage treatment	50,000	56.3572%	The project is yet to commence construction.
46	Heilongjiang Sewage treatment plant project in western Hegang	Sewage treatment	50,000	57.9687%	The project is in operation.
47	Heilongjiang Sewage treatment plant project in eastern Hegang	Sewage treatment	30,000	57.9687%	The project is in operation.
48	Heilongjiang Water recycling plant project in Hegang	Reclaimed water treatment	30,000	57.9687%	The project is in operation.
49	Heilongjiang Sewage treatment plant upgrading and alteration project in eastern Jiamusi	Sewage treatment	100,000	56.3572%	The project is under construction.
50	Heilongjiang Sewage treatment plant project in Fuyuan	Sewage treatment	10,000	57.9687%	The project is yet to commence construction.
51	Heilongjiang Water recycling acquisition project in Shuangyashan	Reclaimed water treatment	40,000	29.5640%	The project is yet to commence construction.
52	Henan Sewage treatment plant BOT project in Dongcheng, Luohe	Sewage treatment	20,000	75.5%	The project is in operation.
53	Henan Sewage treatment project in southern Baihe, Nanyang	Sewage treatment	100,000	69.113%	The project is in operation.
54	Henan Sewage treatment project in Xiaodian, Xinxiang	Sewage treatment	50,000	60%	The project is in operation.
55	Hubei Sewage treatment project in Cihu, Huangshi	Sewage treatment	125,000	100%	The project is in operation.
56	Hubei Sewage treatment project in Hanxi, Wuhan	Sewage treatment	600,000	80%	<ul style="list-style-type: none"> • Phase I of the project is in operation. • The phase I upgrading project and phase II of the project is under construction.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Province	Projects of SI Environment (continued)	Project type	Daily production capacity (tonnes)	Interest attributable to SI Environment	Project progress	
Sewage treatment/Reclaimed water treatment projects						
57	Hubei	Sewage treatment project in Qianchuan, Wuhan	Sewage treatment	30,000	100%	The project is in operation.
58	Hubei	Sewage treatment project in Panlong, Wuhan	Sewage treatment	45,000	100%	<ul style="list-style-type: none"> • Phase I of the project is in operation. • Phase II of the project is under construction.
59	Hubei	Sewage treatment project in the Wuhan New Town	Sewage treatment	60,000	100%	The project is in operation.
60	Hubei	Sewage treatment project in Wuhu, Wuhan	Sewage treatment	25,000	100%	The project is under construction.
61	Hubei	Sewage treatment project in southern Suizhou	Sewage treatment	50,000	92.15%	The project is under construction.
62	Hunan	Sewage treatment BOT project in Linwu, Chenzhou	Sewage treatment	10,000	18.241%	The project is in operation.
63	Hunan	Sewage treatment project in Chenzhou	Sewage treatment	120,000	91.203%	The project is in operation.
64	Hunan	Sewage treatment plant BOT project in Taohuaijiang, Taojiang	Sewage treatment	20,000	75.5%	The project is in operation.
65	Hunan	Sewage treatment plant BOT project in the new zone of eastern Yiyang High Technology Development Zone	Sewage treatment	30,000	75.5%	The project is in operation.
66	Hunan	Sewage treatment plant BOT project in northern Yiyang	Sewage treatment	80,000	75.5%	<ul style="list-style-type: none"> • Phase I of the project is in operation. • Phase II of the project is under construction.
67	Inner Mongolia	Sewage treatment BOT project in Dazhuangyuan Rouliao Plant, Xilinhot	Sewage treatment	3,500	57.9687%	The project is under construction.
68	Inner Mongolia	Sewage treatment plant BOT project in Xilinhot	Sewage treatment	40,000	57.9687%	The project is under construction.
69	Jiangsu	Sewage treatment franchise and sewage treatment plant BOT project at Newport Park, Jingjiang	Sewage treatment	80,000	91.203%	<ul style="list-style-type: none"> • Phase I of the project is in operation. • Phase II of the project is yet to commence construction.
70	Jiangsu	Sewage treatment plant project in southern Shuyang	Sewage treatment	60,000	91.203%	The project is in operation.
71	Jiangsu	Sewage treatment plant franchise project in Huangqiao, Taixing	Sewage treatment	50,000	91.203%	<ul style="list-style-type: none"> • Phase I of the project is in operation. • Phase II of the project is yet to commence construction.
72	Jiangsu	Phase I and phase II of sewage treatment plant project in Guanyinshan, Nantong	Sewage treatment	73,000	92.15%	The project is in operation.
73	Jiangxi	Sewage treatment plant project in Chongren Industrial Park, Fuzhou	Sewage treatment	10,000	60%	The project is under construction.



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Province	Projects of SI Environment (continued)	Project type	Daily production capacity (tonnes)	Interest attributable to SI Environment	Project progress	
Sewage treatment/Reclaimed water treatment projects						
74	Jiangxi	Sewage treatment plant project in Yihuang Industrial Park, Fuzhou	Sewage treatment	5,000	60%	The project is in operation.
75	Jiangxi	Sewage treatment plant project in Yongxin Industrial and Development Zone, Jian	Sewage treatment	10,000	60%	The project is under construction.
76	Jiangxi	Phase I and phase II of sewage treatment plant project in Xiaolan Economic and Development Zone, Nanchang	Sewage treatment	80,000	60%	The project is in operation.
77	Jiangxi	Sewage treatment plant project in Wanzai Industrial Park, Yichun	Sewage treatment	5,000	60%	The project is in operation.
78	Liaoning	Sewage treatment plant in new zone of Puwan, Dalian	Sewage treatment	40,000	92.65%	<ul style="list-style-type: none"> • 20,000 tonnes of the project are in operation. • The remaining 20,000 tonnes are yet to commence construction.
79	Liaoning	Sewage treatment plant BOT project in Dalian Bay, Dalian	Sewage treatment	40,000	75.5%	The project is under construction.
80	Liaoning	Sewage treatment plant BOT project in Quanshui River, Dalian	Sewage treatment	105,000	75.5%	The project is yet to commence construction.
81	Liaoning	Sewage treatment plant in Coal Chemical Industrial Base, Fuxin	Sewage treatment	20,000	60%	The project is under construction.
82	Liaoning	Sewage treatment project in northern Economic and Technological Development Zone of Yingkou	Sewage treatment	30,000	60%	The project is under construction.
83	Ningxia Hui Autonomous Region	Sewage treatment plant no. 5 project in Yinchuan	Sewage treatment	100,000	100%	<ul style="list-style-type: none"> • 50,000 tonnes of the project are in operation. • The remaining 50,000 tonnes are yet to commence construction.
84	Ningxia Hui Autonomous Region	Sewage treatment plant BOT project in Binhe New Zone, Yinchuan	Sewage treatment	50,000	100%	The project is under construction.
85	Ningxia Hui Autonomous Region	Sewage treatment plant no. 5 with reclaimed water treatment ancillary facilities project in Yinchuan	Reclaimed water treatment	50,000	100%	The project is in operation.
86	Shandong	Sewage treatment plant TOT project in Dezhou	Sewage treatment	100,000	75.5%	The project is in operation.
87	Shandong	Sewage treatment plant BOT project in western Weifang	Sewage treatment	40,000	75.5%	The project is in operation.
88	Shandong	Sewage treatment plant BOT project in Weifang High Technology Development Zone	Sewage treatment	50,000	75.5%	The project is in operation.

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Province	Projects of SI Environment (continued)	Project type	Daily production capacity (tonnes)	Interest attributable to SI Environment	Project progress	
Sewage treatment/Reclaimed water treatment projects						
89	Shandong	Sewage treatment plant reclaimed water treatment project in Weifang	Reclaimed water treatment	38,500	75.5%	The project is in operation.
90	Shandong	Sewage treatment plant project in Weifang	Sewage treatment	200,000	75.5%	The project is in operation.
91	Shandong	Sewage treatment plant franchise project in Shanting, Zaozhuang	Sewage treatment	20,000	75.5%	The project is in operation.
92	Shandong	Sewage treatment plant TOT + BOT project in Yicheng, Zaozhuang	Sewage treatment	40,000	75.5%	The project is in operation.
93	Shanghai	Sewage treatment plant no. 2 project in Qingpu, Shanghai	Sewage treatment	180,000	100%	<ul style="list-style-type: none"> • 120,000 tonnes of the project are in operation. • The remaining 60,000 tonnes are under construction.
94	Shanghai	Phase I and phase II of sewage treatment BOT project in western Fengxian, Shanghai	Sewage treatment	150,000	73.72%	The project is in operation.
95	Zhejiang	Sewage treatment project in Duqiao Medical and Chemical Industrial Park, Taizhou	Sewage treatment	25,000	100%	<ul style="list-style-type: none"> • Phase I of the project is in operation. • Phase II of the project is under construction.
96	Zhejiang	Sewage treatment plant BOT project in Xiaocaoe, Yuyao	Sewage treatment	150,000	69.113%	The project is in operation.
97	Zhejiang	Sewage pretreatment plant BOT project in Zhacai, Yuyao	Sewage treatment	3,000	69.113%	The project is in operation.
98	Zhejiang	Sewage treatment plant BOT project in Binhai, Huangjiabu, Ningbo	Sewage treatment	30,000	64.505%	The project is in operation.
99	Zhejiang	Water treatment plant project in the new zone of Hangzhou Bay, Cixi	Sewage treatment	90,000	64.505%	The project is in operation.
100	Zhejiang	Sewage treatment plant project in northern Cixi	Sewage treatment	100,000	59.898%	The project is in operation.
Total			8,228,000			



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Province	Projects of SI Environment (continued)	Project type	Daily production capacity (tonnes)	Interest attributable to SI Environment	Project progress	
Water supply projects						
1	Heilongjiang	Water supply plant TOT project in Mudanjiang	Water supply	360,000	57.9623%	The project is in operation.
2	Heilongjiang	Water supply plant TOT project in Jiamusi	Water supply	360,000	57.9623%	The project is in operation.
3	Hubei	Water supply project in Tianmen	Water supply	200,000	100%	The project is in operation.
4	Hubei	Water supply project in Xinnong, Tianmen	Water supply	Not applicable	70%	The project is in operation.
5	Hubei	Water supply project in Huangpi, Wuhan	Water supply	220,000	100%	The project is in operation.
6	Hunan	Water supply project in Yiyang	Water supply	320,000	90%	The project is in operation.
7	Shandong	Water supply project in Hanting, Weifang	Water supply	60,000	26.183%	The project is in operation.
8	Shandong	Water supply project in Weifang	Water supply	320,000	51.34%	The project is in operation.
9	Shanxi	Water supply project in Lvliang	Water supply	55,000	100%	The project is in operation.
Total			1,895,000			
Total for water projects			10,123,000			
Waste incineration projects						
1	Shanghai	Waste incineration thermal power generation project in Pucheng, Shanghai	Waste incineration	1,050	50%	The project is in operation.
2	Sichuen	Waste incineration thermal power generation project in Dazhou	Waste incineration	1,050	100%	The project is in operation.
3	Zhejiang	Waste incineration thermal power generation project in Wenling	Waste incineration	1,100	50%	The project is in operation.
Total			3,200			

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Province	Projects of General Water of China	Project type	Daily production capacity (tonnes)	Interest attributable to General Water of China	Project progress	
Sewage treatment project						
1	Auhui	Sewage treatment plant project nos. 2, 3 and 4 in Bengbu	Sewage treatment	350,000	100%	<ul style="list-style-type: none"> The project is in operation. The water tariff of three sewage treatment plants were adjusted upward from RMB0.75/tonne to RMB0.76/tonne (plant no. 2), RMB0.79/tonne (plant no. 3), and RMB0.77/tonne (plant no. 4).
2	Auhui	Sewage treatment project in Suzhou	Sewage treatment	100,000	80%	The project is under construction
3	Fujian	Sewage treatment project in Xiamen	Sewage treatment	1,117,500	55%	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	Hunan	Sewage treatment project in river east of Xiangtan	Sewage treatment	150,000	100%	The project is in operation.
7	Zhejiang	Sewage treatment project in the new zone of eastern Huzhou	Sewage treatment	50,000	100%	The project is in operation.
8	Zhejiang	Sewage treatment project in Huzhou	Sewage treatment	15,000	100%	The project is in operation.
9	Zhejiang	Sewage treatment plant upgrading works entrustment project in the new zone of eastern Huzhou	Sewage treatment	50,000	100%	The project is in operation.
10	Zhejiang	GWC sewage treatment project in Huzhou	Sewage treatment	15,000	100%	The project is in operation.
11	Zhejiang	Sewage treatment project in eastern Wenzhou	Sewage treatment	150,000	100%	The project is in operation.
12	Zhejiang	Sewage treatment project in central Wenzhou	Sewage treatment	200,000	70%	<ul style="list-style-type: none"> The project is in operation. The fourth sewage treatment tariff adjustment was completed. The basic sewage treatment tariff was adjusted upward from RMB0.6742/tonne to RMB0.6777/tonne.
Total			2,367,500			



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Province	Projects of General Water of China (continued)	Project type	Daily production capacity (tonnes)	Interest attributable to General Water of China	Project progress	
Water supply/Water generating projects						
1	Auhui	Water supply project in Bengbu	Water supply	655,000	60%	<ul style="list-style-type: none"> The project is in operation. The city water supply tariff adjustment was completed. The city water supply tariff was adjusted upward as from 20 April 2016; residential water usage was adjusted upward from RMB1.33/tonne to RMB1.65/tonne; non-residential water usage was adjusted upward from RMB1.67/tonne to RMB1.86/tonne; special water usage was adjusted upward from RMB3.76/tonne to RMB5/tonne.
2	Auhui	Water supply project in Guzhen	Water supply	100,000	60%	The project is in operation.
3	Fujian	Water generation project in Xiamen	Water generation	1,565,000	45%	The project is in operation.
4	Heilongjiang	Wuhua mountain reservoir project and water supply project in Suifenhe	Water supply	305,000	100%	The project is in operation.
5	Hubei	Water supply project in Xiangyang	Water supply	953,000	50%	The project is in operation.
6	Hunan	Water supply project in Xiangtan	Water supply	425,000	70%	The project is in operation.
7	Zhejiang	Project on reservoir and water induction works in Tiger Lake, Huzhou	Water supply	200,000	100%	The project is in operation.
8	Zhejiang	GWC sewage treatment (water supply plant) project in Huzhou	Water supply	12,000	100%	The project is in operation.
Total			4,215,000			
Total for water projects			6,582,500			

NEW BUSINESS ARENA

As at the end of 2016, Shanghai Galaxy and Galaxy Energy controlled under it had wholly owned or controlled eleven photovoltaic power generation projects in the PRC, with total assets reaching 560MW, representing an increase of 50MW from last year. After Shanghai Galaxy and Galaxy Energy completed the acquisition of Shenzhou photovoltaic power generation project (30MW) in Bayan and Longyang photovoltaic power generation project (20MW) in Gannan in the fourth quarter, the companies entered initially into the photovoltaic power generation market in Heilongjiang, which resulted in a more rational allocation of their assets. At present, all power generation stations have been connected to grids. The annual accumulated power generation for the photovoltaic power generation stations held reached 557 million kWh, representing an increase of 65% year-on-year, maintaining a rapid growth momentum.

In January this year, each of the two shareholders of Shanghai Galaxy made a further capital contribution of RMB150 million to the company which was in proportion to their shareholdings, to finance the future development of the company. During the year, the company's various photovoltaic power generation station projects had completed the application for additional subsidies in renewable energy price, of which six projects obtained the governmental subsidy qualification in electricity price, and the assets in an aggregate of 410MW are listed into the subsidy catalogue for renewable energy, representing 73% of all projects.

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REAL ESTATE

During the year, the real estate segment recorded a profit of HK\$752 million, representing a decline of 15.4% over last year and accounting for 23.3% of the Group's Net Business Profit. The reduction in profit was mainly attributable to extra profits recorded for the disposal of 10% interest in the Four Season Hotel Shanghai during the last financial year. When this factor is excluded, the segment's actual profit increased 2.5% as compared to last year.

SI Development

Against a rapidly developing domestic real estate market, SI Development adhered to its working principles which require the company to make a commitment "To optimize its structure, to focus on key developments, to enhance the quality of its portfolio and to promote its development". During the year, the company capitalized on opportunities arising from the real estate market and the capital market to improve the quality of its asset and inventory structures. Efforts were made to upgrade its principal business and to promote the development of emerging business. Focus was made on the development and construction of key projects and plans were developed to prevent operational risks, resulting in remarkable progress in the development of its projects and bringing the company's overall performance to a new level.

In 2016, SI Development recorded a net profit amounted to RMB592 million, representing a year-on-year increase of 13.9%; revenue amounted RMB6,489 million, a decrease of 2.0%. Contract sales for the year amounted to RMB10,994 million, arising from such projects as Shanghai Bay (Phase III), He Villa and Sea County in Qingpu, Shanghai, Flos Granti in Jinshan, Shanghai, United 88 (Residential) in Changning, Shanghai, Shanghai International Art Centre in Qingpu, Shanghai, Lake Villa in Suzhou, International Chinese City in Shaoxing, International Beer City in Qingdao, Sea Palace in Quanzhou, Shanghai Bay in Huzhou, Hi-Shanghai in Chengdu and Fensheng Times Building in Changsha, etc., accounting for a gross floor area of 745,400 square meters. Rental income for the year amounted to approximately HK\$318 million.





BUSINESS REVIEW, DISCUSSION AND ANALYSIS

SI Development has followed through with its sales principles which emphasize the need “to compete for the best launching date, to ensure successful sales and to strive for rewarding returns.” With flexible marketing strategies, the company has been able to revitalize the inventories of its developments and achieved record high in sales and contracted amount of both over RMB10,000 million during the year. As at the end of the year, SIIC Lake City in Qingpu and Flos Granati in Jinshan were among the top 50 projects in Shanghai in terms of the total areas sold in 2016. While accelerating the pace of its sales, the company has focused its efforts on improving the quality of its projects and introduced specific requirements on green development and meticulous management. The application of technologies on green buildings was emphasized during the construction period to provide a more comfortable and environmentally-friendly environment to its projects. During the year, International Beer City in Qingdao received a national “two star” design certification on green buildings. Beer City T3 received a LEED gold-level certification. Quanzhou C-6-2 public facilities received a pre-certified LEED gold-level certification and the C-8-2 public facilities received a “two star” design certification on green buildings.

As at 22 January 2016, the private placement of SI Development was completed, raising a total proceed of RMB3,902 million. As a result, the proportion of the Company's shareholding in SI Development was diluted from 63.65% to 48.60%, while SI Development remains as a subsidiary of the Company. The transactions for the acquisition of a 100% equity interest in Shanghai Investment Co., Ltd. and the equity interests of SIIC Longchuang (which accounted for 69.7849% interest upon capital injection) were satisfactorily completed.

In March, SI Development seized a rare window period in the bond market and issued a phase-II corporate bond package with an issuance size of RMB1,000 million, setting a new record in the minimum interest rate of similar bond issuance at the same period with a coupon rate of 3.23%. This has helped further reduce the medium- and long-term capital cost and improved the financial structure of the company. In September and October of the same year, a proposal on the conversion of the interim capital reserve into its share capital (at a ratio of 3 shares for every 10 shares) was approved, resulting in the conversion of a total of 426,000,000 shares to the share capital for its shareholders, raising the total share capital to 1,845,000,000 shares. While enhancing its share capital, the company has also been able to share its operating rewards with investors, laying a solid foundation for the sustainable development of its activities in the capital market.



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

While SI Development's principal business is in real estate, it also focused on building a model for the upgrading of "Real estate + X" and has actively explored opportunities for diversification. For the International Beer City project in Qingdao, after the moving in of the Pudong Development Bank, the regional headquarters of Minsheng Bank and Qingdao Fund Centre, its self-owned T3 floor attracted many listed financial and trade companies and global top 500 enterprises. It has firmly consolidated its strategic position of being the core financial city in Qingdao. The grand opening of the Parkson Lion Plaza and the all-weather sports ground further improved the comprehensive ancillary facilities of the Beer City project, and interactively added recurring value to its business building and real estate operations, resulting in encouraging project sales. For its Honghou North Bund project, SI Development and the globally-renowned Nederlander Worldwide Entertainment established a joint cultural company to build the first Broadway music theatre in Shanghai and lay a solid foundation for the cultural operation of projects in the North Bund and their subsequent development. In regard to the shared-office space projects, the WE+ business expanded rapidly, covering 13 key cities across the country. Such business has officially expanded into the overseas markets during the fourth quarter of the year with the building of WE+ spaces in the U.S. and Finland. The company has also embarked on the first shared-office services platform in China and built a wired "WE+ Enterprise Services Mall" to provide more valued-added services for enterprises operating in the premises. Launching these projects is expected to enhance the company's future potential profitability.

SI Urban Development

Profits attributable to shareholders of SI Urban Development were HK\$522 million for the year, representing a year-on-year increase of 0.9%. Total revenue amounted to HK\$5,491 million, representing an increase of 41.8% over last year. Properties delivered during the year accounted for a total gross floor area of approximately 364,000 square meters, and mainly included such projects as Urban Cradle in Shanghai, Shanghai Jing City, Originally in Xi'an and Royal Villa in Kunshan. Contracted sales of SI Urban Development increased 13.1% year on year to RMB6,600 million, exceeding its sales target of RMB5,300 million set in the beginning of the year. The gross floor area of contracted sales was approximately 356,000 square meters, increasing 18.7% year on year and mainly included Urban Cradle and Grand Mansion in Shanghai and Originally in Xi'an. Rental income for the year amounted to HK\$666 million.





BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In January 2016, SI Urban Development, through its 59%-owned subsidiary, Shanghai Urban Development, signed an agreement on its withdrawal from the Green Carbon Fund, to indirectly dispose of its 35% interest in U Center. In May, Shanghai Urban Development further disposed of its remaining 40% interest in U Center in Shanghai through public bidding. Both transactions were now completed. A total pre-tax disposal gain of approximately RMB2,000 million was recorded by Shanghai Urban Development. SI Urban Development has thus successfully realized the hidden value of its project and was able to optimize its strategic portfolio for its investment properties.

In April, SI Urban Development entered into a cooperation framework agreement with Shanghai Electric Power and Power China Real Estate, under which the three parties will leverage their respective advantages, to explore jointly potential opportunities in quality real estate investments, focusing on Shanghai and other first tier cities in China and other major cities along the Yangtze River Delta region. A large comprehensive construction enterprise with abundant land reserves in Shanghai, Shanghai Electric Power together with Power China Real Estate are members of Power Construction Corporation of China, acting as its main platform for the development of the real estate sector with real estate development and operation as their core business.

In August, Shanghai Urban Development issued a six-year corporate bond package in the mainland for a principal amount of RMB1,700 million with a coupon rate of 3.9% to qualified Chinese investors through private issuance. According to the terms of the bond, Shanghai Urban Development has the right to raise the coupon rate and investors have the right to sell the bonds to Shanghai Urban Development upon a maturity date of three years from the date of issuance. In November, SI Urban Development signed another three-year term loan financing with a sum of RMB3,000 million with a loan interest rate of approximately 3.8%. The proceeds will be used for the repayment of shareholders' loans of the company which was denominated in foreign currencies. The two financing arrangements in the second half of the year has helped further reduce the financial cost of the SI Urban Development. It will also optimize the current debt structure and reduce the impact of the fluctuation of the RMB exchange rate on the company.

The topping out of T2 and T3 buildings of TODTOWN Phase I (Residential) of SI Urban Development was formally completed in September 2016. This shows that the development commenced since June 2014 has been able to achieve the schedule of its phased objective targets. The residential portion of the development is expected to be launched in the second quarter of 2017. TODTOWN is the first comprehensive metro superstructure development project in the mainland, located at the sub-center of Shanghai and adjacent to key railways. The project was jointly developed by SI Urban Development, Sun Hung Kai Properties and the Shanghai government, and represents one of the key projects of SI Urban Development in 2017.

In September 2016, a wholly-owned subsidiary of SI Urban Development acquired Contemporary Art Villas and Contemporary Splendour Villas, both residential villa projects located in the Minhang District, Shanghai, the PRC, at a total purchase price of RMB2,350 million, with a total site area of 116,308 sq.m. and 120,512 sq.m., respectively. The transaction was completed in October, 2016. So far, Phases I and II (including 126 residences) of Contemporary Art Villas and Phase I (including 82 residences) of Contemporary Splendour Villas have been built. Further phases of the projects are still under planning. Through this acquisition, SI Urban Development further enhanced its quality land reserves at a reasonable cost and successfully consolidated its strategy of extending its presence in the Shanghai district. The company will focus on the asset operation of its existing quality projects in the future and will strive to realize sustainable profitability of projects under it at reasonable cycles. At the same time, it will continue to explore acquisition opportunities in Shanghai and other core first-and second-tier cities in China and strive to expand its reserves of quality projects.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Set out below is a summary of the major property development projects of the Group as at 31 December 2016:

Major Development Properties

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
1	Kaifu District, Changsha	Fengsheng Building	Residential and commercial	90%	5,468	70,566	7,542	–	Completed
2	Chenghua District, Chengdu	Hi-Shanghai	Commercial and residential	100%	61,506	254,885	75,441	151,644	Completed
3	Beibei District, Chongqing	Hi-Shanghai	Residential and commercial	100%	30,845	74,935	20,092	–	2019
4	Yuhang District, Hangzhou	Hi-Shanghai (Phase I)	Residential and commercial	85%	74,864	230,484	81,104	–	2019
5	Yuhang District, Hangzhou	Hi-Shanghai (Phase II)	Residential and commercial	85%	59,640	198,203	–	–	2019
6	Wuxing District, Huzhou	Shanghai Bay	Residential	100%	85,555	96,085	42,236	76,966	Completed
7	Wuxing District, Huzhou	SIIC Garden Hotel	Hotel and commercial	100%	116,458	47,177	–	–	Completed
8	Wuxing District, Huzhou	Hurun Commercial Plaza	Commercial	100%	13,661	27,322	–	–	Under planning
9	Shilaoren National Tourist Resort, Qingdao	International Beer City	Composite	100%	227,675	783,500	58,387	262,459	2014 to 2018, in phases
10	Fengze District, Quanzhou	Sea Palace	Residential and commercial	49%	381,795	1,670,032	71,225	–	2017 to 2021, in phases
11	Changning District, Shanghai	United 88	Residential	100%	30,175	124,891	27,260	107,254	Completed
			Commercial	100%	16,520	123,308	–	–	Completed
12	Jiading District, Shanghai	Sea Garden	Residential and commercial	100%	58,949	163,351	–	–	2019
13	Jiading District, Shanghai	Essence of Shanghai	Residential and commercial	100%	32,991	75,559	5,612	–	Completed
14	Jingan District, Shanghai	Territory Shanghai	Residential	100%	32,512	114,737	–	76,768	2017
15	Jinshan District, Shanghai	Flos Granti	Residential	100%	135,144	214,143	87,051	122,151	Completed
16	Qingpu District, Shanghai	Belle Rive	Villa	51%	315,073	59,577	1,366	11,963	2014 to 2017, in phases
17	Qingpu District, Shanghai	Shanghai Bay	Residential	51%	808,572	497,065	98,192	96,156	2011 to 2017, in phases
18	Qingpu District, Shanghai	He Villa/Sea County	Residential	51%	162,708	121,683	68,445	31,925	Completed
19	Qingpu District, Shanghai	Shanghai International Art Centre	Composite	100%	194,956	120,363	15,062	76,052	Completed
20	Paojiang New Zone, Shaoxing	International Chinese City	Residential and commercial	96.42%	156,452	265,554	31,195	138,899	2017
21	Wuzhong District, Suzhou	Lake Villa	Residential	70%	285,185	283,377	55,199	253,343	Completed
Sub-total					3,286,704¹	5,616,797¹			



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	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 during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
1	Chaoyang District, Beijing	American Rock	Residential and commercial	100%	121,499	523,833	3,812	454,563	Completed
2	Chaoyang District, Beijing	Youngman Point	Residential and commercial	100%	112,700	348,664	10,905	258,343	2007 to 2021, in phases
3	Haidian District, Beijing	West Diaoyutai	Residential	90%	42,541	250,930	237	172,069	2007 to 2021, in phases
4	Wancheng District, Changsha	Forest Sea	Residential and commercial	67%	679,620	1,032,534	29,877	270,263	2007 to 2025, in phases
5	Jiulongpo District, Chongqing	Top City	Residential, commercial and office	100%	120,014	786,233	17,068	376,095	2008 to 2016, in phases
6	Fuzhou	Sweet Sea	Residential and commercial	26%	387,693	1,046,898	120,409	120,409	2018 to 2021, in phases
7	Huaqiao Town, Kunshan	Yooouu.net	Commercial and office	30.7%	34,223	129,498	6,607	61,951	Completed
8	Zhoushi Town, Kushan	Royal Vila	Residential	53.1%	205,017	267,701	40,276	204,342	2007 to 2017, in phases
9	Minhang District, Shanghai	Urban Cradle	Residential and commercial	53.1%	908,950	1,136,468	37,600	738,311	2007 to 2017, in phases
10	Minhang District, Shanghai	Shanghai Jing City	Residential and commercial	59%	301,908	772,885	45,672	544,970	2012 to 2018, in phases
11	Minhang District, Shanghai	TODTOWN	Residential, commercial, hotel, office and apartment office	20.7%	117,825	605,000	–	–	2018 to 2022, in phases
12	Minhang District, Shanghai	Contemporary Art Villas	Residential	100%	116,308	71,822	–	31,705	2018 to 2020, in phases
13	Minhang District, Shanghai	Contemporary Splendour Villas	Residential	100%	120,512	111,562	–	–	2018 to 2020, in phases
14	Songjiang District, Shanghai	Shanghai Youth City	Commercial and office	100%	57,944	212,130	1,703	139,840	Completed
15	Heping District, Shenyang	Shenyang • U Centre	Commercial, office and serviced apartment	80%	22,651	228,768	5,498	5,498	2015 to 2018, in phases
16	Futian District, Shenzhen	China Phoenix Tower	Residential, commercial and office	91%	11,038	106,190	–	78,343	Completed
17	Nankai District, Tianjian	Laochengxiang	Residential, commercial and office	100%	244,252	752,883	12,415	571,907	2006 to 2019, in phases
18	Binghu District, Wuxi	Urban Development International Center	Commercial, hotel, office and serviced apartment	59%	24,041	193,368	22,728	40,765	Completed
19	Chanba Ecotope, Xi'an	Originally	Residential, commercial and hotel	71.5%	2,101,967	3,899,867	121,584	2,002,343	2008 to 2019, in phases
Sub-total					5,730,703	12,477,234			

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	Projects of the Group	Type of property	Interest attributable to the Group	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
1	Qingpu District, Shanghai	Belle Rive	Villa	49%	315,073	59,577	1,366	11,963	2014 to 2017, in phase
2	Qingpu District, Shanghai	Shanghai Bay	Residential	49%	808,572	497,065	98,192	96,156	2011 to 2017, in phases
3	Qingpu District, Shanghai	He Villa/Sea County	Residential	49%	162,708	121,683	68,445	31,925	Completed
Sub-total					1,286,353¹	678,325¹			
Total					10,303,760¹	18,772,356¹			

Major Future Development Properties

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Expected date of completion
1	Wuxing District, Huzhou	Lot HD35-2E of eastern new zone	Residential and commercial	100%	115,647	173,470	2021
2	Wuxing District, Huzhou	Lot BLD35-2 of eastern new zone	Residential	100%	68,471	150,636	2021
3	Hongkou District, Shanghai	Lot HK324-01 of Tilanqiao Road	Commercial	49%	23,037	221,047	2019
4	Qingpu District, Shanghai	Zhujiajiao Lot D2	Residential and commercial	51%	349,168	174,584	2017
Sub-total					556,323	719,737	

	City	Projects of SI Urban Development	Type of property	Interest attributable to SI Urban Development	Approximate site area (square meters)	Planned total GFA (square meters)	Expected date of completion
1	Xuhui Binjiang, Shanghai	Binjiang U Center	Office and commercial	35.4%	77,371	525,888	2019 to 2021, in phases
Sub-total					77,371	525,888	



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	Projects of the Company	Type of property	Interest attributable to the Company	Approximate site area (square meters)	Planned total GFA (square meters)	Expected date of completion
1	Qingpu District, Shanghai	Zhujiajiao Lot D2	Residential and commercial	51%	349,168	207,612	2017
2	Qingpu District, Shanghai	Shanghai Lot F	Villa	10%	350,533	175,267	Under planning
3	Qingpu District, Shanghai	Shanghai Lot G	Villa	10%	401,274	200,637	Under planning
Sub-total					1,100,975¹	583,516¹	
Total					1,734,669¹	1,829,141¹	

Major Investment Properties

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Total GFA for investment properties (square meters)
1	Wenjiang District, Chengdu	Orchard Forest Commercial Building	Commercial	100%	1,396
2	Qingdao Economic Development Zone	Dali Plaza	Commercial	76%	21,495
3	Laoshan District, Qingdao	Shanghai Industrial Investment Centre	Office	100%	7,347
4	Changning District, Shanghai	Super Ocean Finance Center	Office	100%	2,321
5	Changning District, Shanghai	United 88	Commercial	100%	22,199
6	Hongkou District, Shanghai	Gao Yang Commercial Centre	Office	100%	26,668
7	Hongkou District, Shanghai	Gao Yang Hotel	Office	100%	3,847
8	Huangpu District, Shanghai	Golden Bell Plaza	Office	100%	12,270
			Office	90%	49,006 (car park included)
9	Huangpu District, Shanghai	Huangpu Estate	Commercial	100%	20,918 (car park included)
10	Huangpu District, Shanghai	No. 108, Haichao Road	Commercial	100%	474
11	Jingan District, Shanghai	Territory Shanghai	Commercial	100%	1,779
12	Pudong New District, Shanghai	No. 1111, Shangchuan Road	Industrial	100%	40,208
13	Pudong New District, Shanghai	Huashen Building	Office	100%	344
14	Xuhui District, Shanghai	Shanghai Industrial Investment Building	Office	100%	10,089
				74%	23,035 (car park included)
15	Xuhui District, Shanghai	Yonglong Building	Office	100%	798
16	Yangpu District, Shanghai	Hi-Shanghai	Commercial	100%	44,027 (car park included)
17	Zhabei District, Shanghai	No. 235, Zhongshan Road North (portion)	Office	100%	1,434
18	Xiqing District, Tianjin	Rhine Town	Commercial	100%	5,961
Sub-total					295,616



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	Projects of SI Urban Development	Type of property	Interest attributable to SI Urban Development	Total GFA for investment properties (square meters)
1	Chaoyang District, Beijing	Youngman Point	Commercial	100%	19,768 ²
2	Jiulongpo District, Chongqing	Top City	Commercial and parking lot	100%	251,847 ²
3	Changning District, Shanghai	ShanghaiMart	Exhibition, transaction market, office building and parking lot	51%	284,651
4	Minhang District, Shanghai	Contemporary Art Villa	Villa	100%	43,976 ²
5	Songjiang District, Shanghai	Shanghai Youth City	Commercial	100%	16,349 ²
6	Xuhui District, Shanghai	Urban Development International Tower	Office building	59%	45,239
7	Xuhui District, Shanghai	YOYO Tower	Commercial	59%	13,839
8	Futian District, Shenzhen	China Phoenix Tower	Office building	91%	1,048 ²
9	Shanghai and Tianjin	Others	Commercial, office building and parking lot	59%	9,249
Sub-total					685,966
Total					981,582

Notes:

1. There are duplicate figures in the GPA of Belle Rive, Shanghai Bay in Shanghai, He Villa/Sea County and Zhujiajiao Lot D2.
2. Such total GFAs are duplicate figures, which have been included in the Major Development Properties table.



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

CONSUMER PRODUCTS

The consumer products business contributed a profit of HK\$1,075 million during 2016, representing an increase of 2.5% over last year and accounting for 33.3% of the Group's Net Business Profit. In view of rapid changes in the development of the global tobacco industry, the Group has actively sought for breakthroughs for its tobacco business, having stabilized its operations and profit for the year. Meanwhile, our printing business has successfully coped with changes in the tobacco and wine markets in China and the needs required for the transformation of the company. As a result, the company has successfully turned around the unfavorable conditions in the first half year and achieved better results against targets established for the whole year.

Tobacco

In 2016, Nanyang Tobacco recorded a revenue and net profit of HK\$3,203 million and HK\$971 million respectively, representing an increase of 2.8% and 4.4%. Total sales volume of tobacco recorded a year-on-year increase of 0.5%. During the year, facing changes in the external environment, Nanyang Tobacco has committed to implement and follow objectives and measures established at the beginning of the year: "stabilization of sales volume, adjustment and optimization of structure, technological innovation and steady development". The company's operating efficiency continued to maintain the vantage of successive growth in total sales volume, sales revenue and net profit.

During the year, Nanyang Tobacco actively consolidated its existing market share, and the proportion of sales for exquisite products and general products remained sound and stable. For Hong Kong and Macau, by focusing on brand and quality, the company managed to maintain and stabilize sales for the high-end consumer base; for the duty free market, it achieved breakthroughs in seeking new sales target in the European market, and launching its products mainly at the airport duty free shops. This further promoted its brand value. The company also expanded its duty free retail points in the South American market, Japan and the United States; Overseas, "Double Happiness" saw satisfactory growth in markets, including the South American, North American, the Middle East and African markets. Nanyang Tobacco also developed new markets in Central Asia under the national strategy of "One Belt and One Road", and has further expanded its "Double Happiness" tourism product series. Its "Double Happiness Commemorative Edition for Central Asia" became a highlight product at the border cooperation center between China and Kazakhstan.



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

During the year, Nanyang Tobacco continued to strengthen its technological transformation to maintain its leading position technologically. It completed the installation and commissioning of all equipment for expansion work of cut tobacco storage cabinet to accommodate new flexible feeding technology projects, scheduled to be completed in the second quarter of the year. The equipment for cigarette logistic works has commenced to be installed, and it is expected to be put into production in the third quarter of the year. Other projects are in progress as planned.

Printing

Wing Fat Printing recorded a revenue of HK\$1,217 million for the year, representing a year-on-year increase of 9.6%. The company's consolidated gross profit margin was 33.7%, up with 6 percentage points as compared to last year; net profit amounted to HK\$128 million, which basically remained the same as last year. During the year, Wing Fat Printing continued to consolidate and modify its traditional business, and developed plans to overcome unfavourable factors in the current tobacco industry in China, including destocking, increasing competitions, rising raw material and labour costs as well as a decrease in income from financial investments and associated companies. As the exquisite-moulded fiber packaging box manufacturing base was built as scheduled and commenced operation in the third quarter, scale-production of exquisite-moulded fiber products has made a significant contribution to the results of the company and achieved better operational efficiency in the second half of the year. Not only has this offset the impact from the decline in performance of the traditional business, but has also enabled the company to make a big leap forward for its strategic transformation.

Wing Fat Printing has set a strategic objective of transforming its traditional business into a new mode of operation – “a transforming development propelled by two wheels”. Under this direction, the company will focus on the development of consumer electronic products integrated packaging business while bolstering the potential of its traditional business. The company will continue to build up a more diversified customer base and turn itself into a strategic supplier and service provider for the delivery of integrated solutions on exquisite packaging products to its customers.



FINANCIAL REVIEW

KEY FIGURES

	2016	2015 (restated)	Change %
Results			
Revenue (HK\$'000)	22,131,758	19,693,682	12.4
Profit attributable to owners of the Company (HK\$'000)	2,903,030	2,826,764	2.7
Earnings per share – basic (HK\$)	2.673	2.605	2.6
Dividend per share (HK cents)	92	81	
– Interim (paid)	36	36	
– Special (paid)	10	–	
– Final (proposed)	46	45	
Dividend payout ratio	34.4%	31.1%	
Interest cover (note (a))	7.2 times	5.3 times	

	2016	2015 (restated)	Change %
Financial Position			
Total assets (HK\$'000)	151,248,175	144,700,693	4.5
Equity attributable to owners of the Company (HK\$'000)	36,916,289	36,031,634	2.5
Net assets per share (HK\$)	33.98	33.18	2.4
Net debt ratio (note (b))	38.42%	56.05%	
Gearing ratio (note (c))	42.53%	46.82%	
Number of shares in issue (shares)	1,086,565,600	1,085,850,600	

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 + interest-bearing loans)

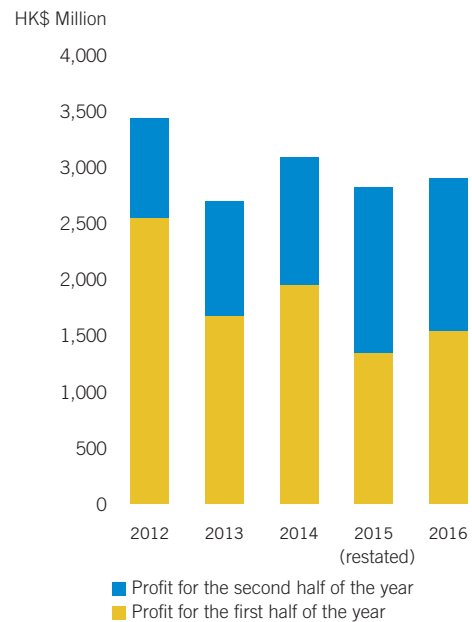
Note: The Company has adopted the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” to account for its acquisitions of Yield Express Limited from SIIC. The comparative figures for 2015 contained in this Financial Review had been restated accordingly.

FINANCIAL REVIEW

I ANALYSIS OF FINANCIAL RESULTS

1 Profit attributable to owners of the Company

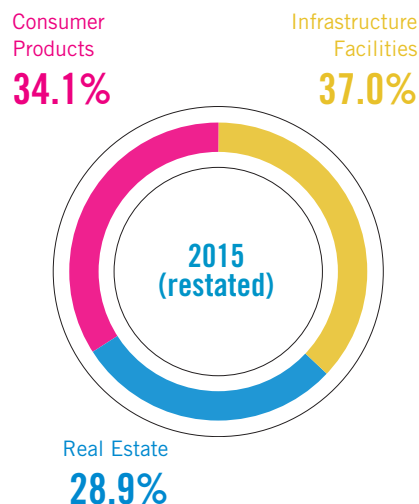
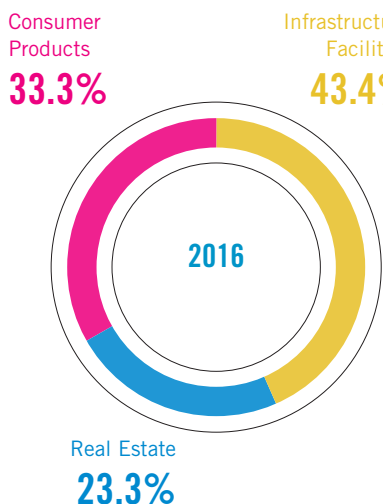
For year ended 31 December 2016, the Group recorded a profit attributable to owners of the Company of HK\$2,903.03 million, an increase of HK\$76.27 million or approximately 2.7% as compared to 2015.



2 Profit Contribution from Each Business

The profit contributed by each business in the Group for the year of 2016 and the comparative figures last year was summarized as follows:

	2016 HK\$'000	2015 HK\$'000 (restated)	Change %
Infrastructure Facilities	1,397,276	1,136,666	22.9
Real Estate	751,579	887,967	-15.4
Consumer Products	1,074,788	1,048,404	2.5
	3,223,643	3,073,037	4.9





FINANCIAL REVIEW

Net profit from the infrastructure facilities business for the year was approximately HK\$1,397.28 million, accounting for 43.4% of Net Business Profit, and representing a year-on-year increase of 22.9%. While the traffic flow of the three expressways recorded a growth ranging from 6.9% to 15.6% attributable to a number of factors, including growth in the number of vehicles, fine weather, a higher number of tourists during holidays and adjustments to the mileage charge for the toll expressways in Shanghai. The result of toll road operation achieved a year-on-year increase of 5.6% due to an approximate 6% depreciation of Renminbi, which offset part of the increase in toll revenue. In addition, the share of Bridge Company's profit for the full year increased by HK\$23.78 million year-on-year as merger accounting was adopted following the completion of the acquisition of 23.0584% interest at the end of 2016. Water services business recorded an increase of 78.1% in profit, which was mainly attributable to the fair value gain on revaluation from Longjiang Environmental of HK\$130.02 million. Profit attributable to shareholders of SI Environment increased by 26.2%, driven by profit contributions from newly acquired projects, but part of its profit contributions to the Group were offset by the dilution of equity interests and depreciation of Renminbi, and recorded a year-on-year increase of 13.1%. General Water of China recorded growth in operating profit and gain on disposal of the Xianyang project, with a year-on-year increase of 71.5% in profit contribution.

The real estate business recorded a profit of HK\$751.58 million, accounting for 23.3% of Net Business Profit, and representing a decrease of approximately HK\$136.39 million over 2015. The decrease was mainly due to gain on disposal of the 10% interests in Four Seasons Hotel last year. Property sales booked by SI Urban Development increased during the year. However, gain on disposal of project interests dropped, resulting in a flat year-on-year profit contribution. Profit attributable to shareholders of SI Development for the year increased 13.9%. However, the equity interests in SI Development were diluted to 48.6% following the completion of its new share placement, resulting in a decline of profit contribution.

The consumer products business recorded a net profit of HK\$1,074.79 million for the year, accounting for 33.3% of Net Business Profit, and representing a year-on-year increase of 2.5%. The business of Nanyang Tobacco remained stable contributing to a year-on-year increase in net profit by 4.4%. Profit from Wing Fat Printing's moulded fibre packaging business, which commenced production in the year, offset the decrease in profit caused by various factors, including destocking of tobacco industry, intensified competition and rise in material and labour costs.

FINANCIAL REVIEW

3 Revenue

The Group's revenue by principal activities for the year of 2016 and the comparative figures last year was summarized as follows:

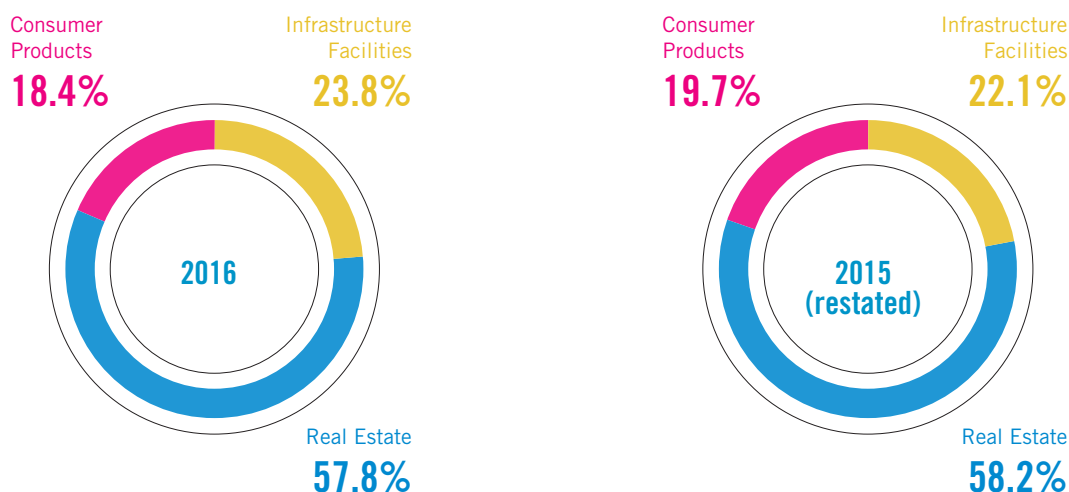
	2016 HK\$'000	2015 HK\$'000 (restated)	Change %
Infrastructure Facilities	5,274,746	4,348,739	21.3
Real Estate	12,777,693	11,455,908	11.5
Consumer Products	4,079,319	3,889,035	4.9
	22,131,758	19,693,682	12.4

In 2016, the revenue amounted to approximately HK\$22,131.76 million, representing a year-on-year increase of 12.4%, mainly due to the increase of property sales booked in the real estate business as compared to last year.

The year-on-year increase in revenue of the infrastructure facilities business was attributable to the increase in revenue of SI Environment approximately HK\$860.27 million as it started to consolidate the revenue of Fudan Water upon completion of the acquisition in May 2015 and Longjiang Environmental upon completion of the acquisition of additional interest in October 2016 respectively. In addition, a year-on-year increase in construction income was recorded.

The increase in revenue of the real estate business was attributable to a rise in property sales booked in the real estate business as compared to last year, together with the consolidation of sales of SIIC-Longchuang upon completion of acquisition by SI Development in early 2016, which added HK\$1,321.79 million in revenue to the real estate business as compared to last year.

During the year, growth in revenue of Nanyang Tobacco was maintained while the moulded fibre packaging business of Wing Fat Printing has commenced production. Therefore, the revenue from consumer products business increased by approximately 4.9%.





FINANCIAL REVIEW

4 Profit before Taxation

(1) Gross profit margin

Compared to 2015, gross profit margin decreased by 2.2 percentage points, mainly due to an increase in proportion of construction income with relatively lower profit margin in the infrastructure facilities business, which in turn resulted in a decrease of approximately 5.0 percentage points in the overall gross profit margin of the infrastructure facilities business. Meanwhile, the proportion of property sales booked with lower margin also increased, and the gross profit margin for consumer products businesses remained stable.

(2) Other income, gains and losses

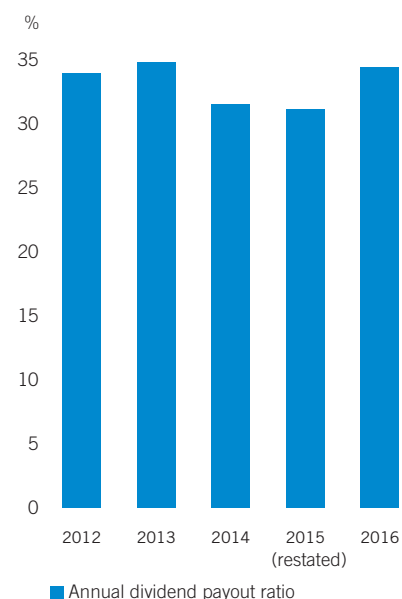
Despite the continual depreciation of Renminbi during the year, foreign exchange loss significantly dropped due to the significant decrease in foreign currency debts.

(3) Net gain on disposal of assets through disposal of interests in subsidiaries/disposal of interests in subsidiaries and associates

The net gain for the year was mainly attributable to a profit before tax of HK\$2,725.93 million from the completion of disposal of 35% assets and all the remaining equity interests in Longcheng project and a fair value gain on revaluation from Longjiang Environmental. The net gain for last year was mainly attributable to a profit before tax of HK\$1,195.24 million and HK\$452.37 million from the disposal of a 100% equity interests in Qi'ao Island Project and a 100% equity interests in Yanjiao Project, respectively.

5 Dividend

The Board of Directors has proposed a final dividend of HK46 cents per share. Together with an interim dividend of HK36 cents and a special dividend of HK10 cents per share, the total dividend amounted to HK92 cents per share for 2016 (2015: HK81 cents per share). Annual dividend payout ratio is 34.4% (2015: 31.1%).



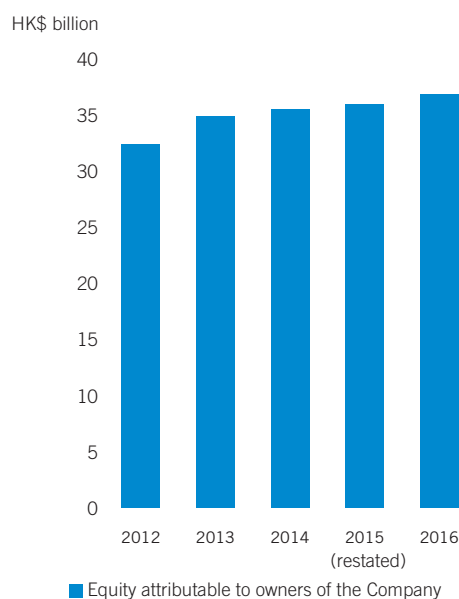
FINANCIAL REVIEW

II FINANCIAL POSITION OF THE GROUP

1 Capital and Equity attributable to owners of the Company

The Company had a total of 1,086,565,600 shares in issue as at 31 December 2016, increasing by 715,000 shares, compared with 1,085,850,600 shares as at the end of 2015.

Equity attributable to owners of the Company reached HK\$36,916.29 million as at 31 December 2016, and the increase was attributable to the net profit after deducting the dividend actually paid during the year.



2 Indebtedness

(1) Borrowings

SIHL Finance Limited, a wholly-owned subsidiary of the Company, signed a HK\$3 billion or US dollar equivalent dual-currency club loan in May 2016, of which HK\$1.5 billion or US dollar equivalent dual-currency are of a term of 3 years and the remaining HK\$1.5 billion or US dollar equivalent dual-currency are of a term of 5 years. The facility was used for the early repayment of a syndicated loan of totally HK\$3.0 billion or US dollar equivalent dual-currency due in 2017 and 2019 respectively. In November 2016, a bank loan of HK\$1.3 billion was signed and was for the purpose of general working capital.

As at 31 December 2016, the total borrowings of the Group including bank borrowings, other borrowings and convertible bonds amounted to approximately HK\$46,235.88 million (31 December 2015: HK\$48,684.33 million), of which 67.9% (31 December 2015: 62.0%) was unsecured credit facilities. The proportions of US dollars, Renminbi and HK dollars of total borrowings were 3%, 84% and 13% (31 December 2015: 9%, 69% and 22%) respectively.

(2) Pledge of assets

The following assets were pledged by the Group to banks to secure banking facilities granted by these banks to the Group:

- (a) investment properties with an aggregate carrying value of HK\$11,585,060,000 (31 December 2015: HK\$12,613,259,000);
- (b) leasehold land and buildings with an aggregate carrying value of HK\$906,567,000 (31 December 2015: HK\$1,569,254,000);
- (c) plant and machineries with an aggregate carrying value of HK\$20,218,000 (31 December 2015: HK\$25,529,000);
- (d) one (31 December 2015: one) toll road operating right with a carrying value of HK\$2,415,929,000 (31 December 2015: HK\$2,778,489,000);
- (e) receivables under service concession arrangements with an aggregate carrying value of HK\$9,179,515,000 (31 December 2015: HK\$2,440,439,000);
- (f) properties under development held for sale with an aggregate carrying value of HK\$5,644,075,000 (31 December 2015: HK\$8,279,494,000);
- (g) properties held for sale with an aggregate carrying value of HK\$16,233,000 (31 December 2015: HK\$1,541,220,000);
- (h) trade receivables with an aggregate carrying value of HK\$63,968,000 (31 December 2015: HK\$188,229,000); and
- (i) bank deposits with an aggregate carrying value of HK\$430,853,000 (31 December 2015: HK\$362,252,000).



FINANCIAL REVIEW

(3) *Contingent liabilities*

As at 31 December 2016, the guarantees given to banks by the Group in respect of banking facilities utilised by an entity controlled by State-owned Assets Supervision and Administration Commission of Shanghai Xuhui District, property buyers and joint ventures amounted to approximately HK\$163.02 million, HK\$4,926.28 million and HK\$1,779.63 million (31 December 2015: HK\$263.91 million, HK\$2,553.96 million and HK\$1,029.71 million) respectively.

3 Capital Commitments

As at 31 December 2016, the Group had capital commitments mainly contracted for business development and investments in fixed assets of HK\$5,831.65 million (31 December 2015: HK\$5,526.29 million). The Group had sufficient internal resources and/or through loan markets for the finance of its capital expenditures.

4 Bank Deposits and Short-term Investments

As at 31 December 2016, bank balances and short-term investments held by the Group amounted to HK\$32,053.02 million (31 December 2015: HK\$28,487.43 million) and HK\$226.97 million (31 December 2015: HK\$444.19 million) respectively. The proportions of US dollars and other currencies, Renminbi and HK dollars of bank balances were 3%, 88% and 9% (31 December 2015: 4%, 73% and 23%) respectively. Short-term investments mainly consisted of investments such as Hong Kong and PRC listed shares.

While having sufficient working capital and a healthy interest cover, the Group is monitoring the market situation and respective funding requirements on a regular basis for business developments, and will seek opportunities to optimize its capital structure should the need arises.

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 arise from fluctuations in the US dollar, Singapore dollar, HK dollar and Renminbi exchange rates. The management monitors foreign currency exposure, especially in view of the depreciation risk for Renminbi. The management will also consider hedging significant foreign currency exposures and adopting suitable measures where necessary in order to mitigate impacts due to the depreciation of the Renminbi to the Group.

2 Interest Rate Risk

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

3 Price Risk

The Group is exposed to price risks through its listed investments classified as either available-for-sale investments or financial assets at fair value through profit or loss. The management strictly monitors this exposure by maintaining a portfolio of investments with different levels of risks. The Group's price risks are mainly concentrated on equity instruments quoted in the Stock Exchange and the Shanghai Stock Exchange. In addition, a special team has been appointed by the management to monitor price risks and hedging against such risk exposures will be made should the need arises.

4 Credit Risk

The Group's principal financial assets are receivables under concession arrangements, pledged bank deposits, short-term bank deposits, bank balances and cash, securities and debt investments and trade and other receivables. 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 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, all bank balances and cash, securities and debt investments of the Group must be placed and entered into with sound and reputable financial institutions. Strict requirements and restrictions in relation to the outstanding amount and credit ratings on securities and debt investments to be held are followed in order to minimize the Group's credit risk exposures.

CORPORATE GOVERNANCE REPORT

Good corporate governance is an indispensable part to the expansion and sustainable development of enterprises. In recognition of this, the Board and the management of the Group have been upholding the principles of good corporate governance and have implemented an effective system for risk management and internal controls. Efforts have also been taken to actively enhance corporate operational transparency and accountability in order to safeguard the interests of our shareholders and other stakeholders and to create value for the long-term development of the Company.

CORPORATE GOVERNANCE STRUCTURE

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 by the Board are properly implemented.

In accordance with requirements for the Corporate Governance Code, the Company will consistently oversee its risk management and internal control systems of the Company and its subsidiaries to ensure the effectiveness and appropriateness of the systems, in addition to internal audits currently conducted for subsidiaries within the Group. The scope of such reviews covered financial, operational and compliance controls.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Corporate Governance Code for the year ended 31 December 2016, except for the deviation from E.1.2 of the Code as described below. An independent non-executive Director, also being the chairman of the Nomination Committee and Remuneration Committee of the Company at that time, was unable to attend the annual general meeting of the Company held on 26 May 2016 due to a business engagement. 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.

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 mainland China as well as integration of capital and business operations, the Group has successfully turned itself into an enterprise that built its foundation on three core areas of business, including infrastructure and environmental protection, real estate as well as consumer products. Capitalizing on the future development opportunities of China, the Group strives to become a comprehensive investment red chip window company that will constantly create value for its shareholders. Based on its own resources and the market development locally and abroad, the Company will expand the infrastructure and environmental protection business and continue to pursue the steady development of its real estate business while striving to enhance the growth of its consumer products business in the future.

BOARD OF DIRECTORS

The Board of Directors represents the highest level of authority in the management 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.



CORPORATE GOVERNANCE REPORT

Composition of the Board

As of the date of this report, the Board of Directors of the Company consists eight members as below:

Name of Director	Executive position in the Board	Years of service in the Group
Executive Directors		
Wang Wei	Chairman	3.75 years
Zhou Jun	Vice Chairman & Chief Executive Officer	11.5 years
Xu Bo	Deputy CEO	5 years
Xu Zhan		2.5 years
Independent Non-Executive Directors		
Woo Chia-Wei	–	21 years
Leung Pak To, Francis	–	21 years
Cheng Hoi Chuen, Vincent	–	4.5 years
Yuen Tin Fan, Francis	–	9 months

The members of the Board of the Company comprise professionals from different areas who have served in relevant PRC government 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 member of the Board is materially related to one another in terms of financial, business and family aspects. Brief biographical details of the Directors are set out on pages 56 to 58 of this Annual Report. In all corporate communication channels as well as the 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. Wang Wei and Mr. Zhou Jun are Chairman and 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 between the two positions.

Independent Non-Executive Directors

The Company has four Independent Non-Executive Directors. They have the same fiduciary duties as those of the Executive Directors. The number of Independent Non-Executive Directors accounts for more than one-third of the number of members of the Board while no less than one of the Independent Non-Executive Directors has the relevant financial expertise required. 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 as independent. During the year, the Chairman has met the Independent Non-Executive Directors without the presence of Executive Directors.

CORPORATE GOVERNANCE REPORT

Replacement of Directors

For the year ended 31 December 2016 and up to the date of this report, the following changes were made to the Board of the Company:

- On 30 June 2016, Dr. Lo Ka Shui has resigned as an Independent Non-Executive Director of the Company due to his commitments on other business endeavours.
- On 15 July 2016, being nominated by the Nomination Committee of the Company, Mr. Yuen Tin Fan, Francis has been appointed as an Independent Non-Executive Director of the Company.
- On 25 August 2016, Mr. Zhou Jie has resigned as an Executive Director, the Vice Chairman and Chief Executive Officer of the Company due to job re-arrangement. On the same date, being nominated by the Nomination Committee of the Company, Mr. Zhou Jun, an Executive Director of the Company, has been re-designated as the Vice Chairman and Chief Executive Officer of the Company.
- On 17 November 2016, being nominated by the Nomination Committee of the Company, Mr. Xu Zhan has been appointed as an Executive Director of the Company.
- On 24 January 2017, Mr. Lu Shen has resigned as an Executive Director and the Executive Deputy CEO of the Company.

The resolutions for the above changes were passed by all members of the Board, and relevant disclosures were made by announcements in accordance with the Listing Rules.

Terms of the Directors

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

At the 2016 annual general meeting, Mr. Zhou Jie, Mr. Zhou Jun and Mr. Cheng Hoi Chuen, Vincent retired by rotation and were re-elected in accordance with the Company's articles of association.

At the extraordinary general meeting held on 16 November 2016, Mr. Yuen Tin Fan, Francis was re-elected and continued to act as Director in accordance with the Company's articles of association and the Corporate Governance Code.

At the upcoming 2017 annual general meeting, Mr. Wang Wei, Mr. Xu Bo and Mr. Leung Pak To, Francis 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 Zhan shall retire at the meeting and offer himself 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 re-election of Mr. Leung Pak To, Francis, who has served in the Company for more than nine years as Independent Non-Executive Director 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

The Directors of the Company are dedicated to their duties diligently, and have taken an active participation in the Company's affairs to make valuable contribution to the business development of the Company. The Company has established the procedures for Directors to Seek Professional Advice, and the Directors (also refers to board committee members) may seek independent professional advice according to such agreed procedures at the expense of the Company, to assist team perform their duties.

Every year, the Company also arranged liabilities insurance for directors and senior 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.



CORPORATE GOVERNANCE REPORT

Proceedings at Directors' Meetings

The schedule for convening regular meetings of the Board (also refers to 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 meeting and relevant materials will be given 14 days and 3 days before the date of the regular meetings of the Board (also refers to board committees) respectively. The Company Secretary will confirm with the Directors if any matters are required to be included in the agenda for regular meetings before they are sent out.

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

During the year, for those matters to be considered by the Board in which a substantial shareholder or a Director had a material conflict of interest, these matters have been dealt with at a physical board meeting. If any resolution of the board meeting involves material interests of any Director or any of his associates, such Director will abstain from voting and will not be counted in the quorum present at the meeting.

In 2016, 24 board meetings were held by the Company (18 of which were in the form of written resolutions). 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 2016 is set out below:

	Meetings held in 2016					
	Meetings attended / Meetings held					
	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Number of meetings held in the year	24	5	3	4	4	2
Executive Directors						
Wang Wei	24/24	5/5	–	–	–	2/2
Zhou Jun	24/24	5/5	–	–	–	2/2
Xu Bo	24/24	5/5	–	–	–	2/2
Xu Zhan ¹	3/3	–	–	–	–	–
Zhou Jie ²	10/11	5/5	–	–	–	0/1
Lu Shen ³	21/24	5/5	–	–	–	1/2
Independent Non-Executive Directors						
Woo Chia-Wei	24/24	–	3/3	4/4	4/4	2/2
Leung Pak To, Francis	23/24	–	3/3	4/4	4/4	1/2
Cheng Hoi Chuen, Vincent	23/24	–	3/3	4/4	4/4	2/2
Yuen Tin Fan, Francis ⁴	14/14	–	2/2	2/2	3/3	1/1
Lo Ka Shui ⁵	9/9	–	–	1/1	–	0/1
Committee Members						
Li Han Sheng	–	–	–	4/4	4/4	–
Tang Ming ⁶	–	–	–	1/1	2/2	–
Guo Fa Yong ⁷	–	–	–	3/3	2/2	–
Attendance	97%	100%	100%	100%	100%	76%

Notes:

1. Appointed on 17 November 2016.
2. Resigned on 25 August 2016.
3. Resigned on 24 January 2017.
4. Appointed on 15 July 2016.
5. Resigned on 30 June 2016.
6. Appointed on 16 November 2016.
7. Resigned on 16 November 2016.
8. The attendance is accounted for by reference to the number of board meetings held during the tenure of each respective Director.

CORPORATE GOVERNANCE REPORT

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 the relevant employees of the Company, each of them has confirmed that they have fully complied with the requirements of the Model Code and the code of the Company during 2016.

Directors' Training

Based on the Directors' training records, the trainings received by each Director for the year ended 31 December 2016 is summarized as follows:

Name of Director	Continuing professional development category	
	To participate in training covering business, industries, corporate governance, regulatory development and other related topics	To read newspapers, publications and updated information about economics, commerce, directors' duties, etc.
Executive Directors		
Wang Wei	√	√
Zhou Jun	√	√
Xu Bo	√	√
Xu Zhan	√	√
Independent Non-Executive Directors		
Woo Chia-Wei	√	√
Leung Pak To, Francis	√	√
Cheng Hoi Chuen, Vincent	√	√
Yuen Tin Fan, Francis	√	√

Functions of Corporate Governance

The Board of the Company is responsible for performing corporate governance duties to develop and review the Group'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 Group'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 the Group's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

During the year, the Company also provided corporate governance guidelines and information from time to time to the Board members and member companies according to the latest laws and regulations, and ensured compliance with the relevant provisions of corporate governance by them.

DELEGATION BY THE BOARD

Board Committees

Currently four committees have been established under the Board, namely the Executive Committee, Audit Committee, Remuneration Committee and 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.



CORPORATE GOVERNANCE REPORT

Executive Committee

Being 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 passed by the Board and at the general meetings, reviewing major business activities and investments, and reporting to the Board.

For the year ended 31 December 2016 and up to the date of this report, changes of the Executive Committee are as follows:

- On 25 August 2016, Mr. Zhou Jie has resigned as a committee member.
- On 24 January 2017, Mr. Lu Shen has resigned as a committee member.

All members of the Executive Committee are Executive Directors and following the said changes, as of the date of this report, members of the committee included Mr. Wang Wei, Mr. Zhou Jun and Mr. Xu Bo. Mr. Wang Wei is the chairman of the committee.

Major Work Done by the Executive Committee

In 2016, the Executive Committee held five meetings in the form of written resolutions. The matters considered mainly included disposal of project interest, capital injection, establishment of investment funds and shareholder's loan of its subsidiaries as well as establishment of ESG Committee by the Company.

Audit Committee

The Audit Committee is mainly responsible for reviewing accounting policies and practices adopted by the Group. The committee also review matters relating to financial reporting as well as risk management and internal control, selects, appoints and dismisses external auditor and monitors the independence and objectivity of the external auditor and the effectiveness of the audit process, the nature and scope of audit services and related audit fees payable to the external auditors, and reports to and makes recommendations to the Board for decision-making. The Company has a system for employees to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the financial reporting, risk management and internal control of the Company.

On 15 July 2016, Mr. Yuen Tin Fan, Francis was appointed as a member of the Audit Committee. Following the said change and as of the date of this report, the members of the Audit Committee included Mr. Cheng Hoi Chuen, Vincent, Prof. Woo Chia-Wei, Mr. Leung Pak To, Francis and Mr. Yuen Tin Fan, Francis. Mr. Cheng Hoi Chuen, Vincent is the chairman of the committee. The Company Secretary acts as the committee secretary.

Major Work Done by the Audit Committee

In 2016, the Audit Committee held three meetings. The matters considered at the meetings included review of the Group's results, review of the Company's financial reporting, risk management and internal control system, review of internal audit, non-audit services, human resources for accounting and financial reporting functions as well as appointment of external auditor for the coming year. During the year, not less than 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 the remuneration policies and structure with regard to the Directors and senior management. The committee will determine the remuneration of Directors and senior management in accordance with corporate strategies and goals set up by the Board, and none of the Directors will determine his own remuneration.

For the year ended 31 December 2016 and up to the date of this report, changes of the Remuneration Committee are as follows:

- On 30 June 2016, Dr. Lo Ka Shui has resigned as a member and the chairman of the Remuneration Committee due to his commitments on other business endeavours. On the same day, Prof. Woo Chia-Wei was appointed as the Chairman of the Remuneration Committee.

CORPORATE GOVERNANCE REPORT

- On 15 July 2016, Mr. Yuen Tin Fan, Francis was appointed as a member of the Remuneration Committee.
- On 16 November 2016, Mr. Guo Fa Yong has resigned as a member of the Remuneration Committee due to job re-arrangement. On the same day, Mr. Tang Ming was appointed as a member of the Remuneration Committee.

Following the said changes and as of the date of this report, the members of the Remuneration Committee included four Independent Non-Executive Directors, namely Prof. Woo Chia-Wei, Mr. Leung Pak To, Francis, Mr. Cheng Hoi Chuen, Vincent and Mr. Yuen Tin Fan, Francis, as well as representatives from the management, namely Mr. Li Han Sheng and Mr. Tang Ming. Prof. Woo Chia-Wei is the chairman of the committee while the Company Secretary acts as the committee secretary.

Major Work Done by the Remuneration Committee

In 2016, the Remuneration Committee held four meetings (three of which were in the form of written resolutions). The matters considered included distribution and payment of discretionary bonuses to the Directors, proposed adjustments for the remuneration of Directors and senior management, directors' services agreements and appointment letters, etc.

During the year, according to the Company's performance appraisal mechanism, salaries of the employees were reviewed taking into account the Company's performance, individual performance of the staff and the trend of the industry average to ensure a reasonable and competitive compensation package for its employees.

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 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 submit the candidate to the Board for consideration in accordance with the benchmark of the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, racial, professional experience, technical, knowledge and lengths of service, etc., and based on the working experience, and expertise required for the position and the time and effort that the candidate may contribute to the Company.

For the year ended 31 December 2016 and up to the date of this report, changes of the Nomination Committee are as follows:

- On 30 June 2016, Dr. Lo Ka Shui has resigned as a member and the chairman of the Nomination Committee due to his commitments on other business endeavours. On the same day, Prof. Woo Chia-Wei was appointed as the Chairman of the Nomination Committee.
- On 15 July 2016, Mr. Yuen Tin Fan, Francis was appointed as a member of the Nomination Committee.
- On 16 November 2016, Mr. Guo Fa Yong has resigned as a member of the Nomination Committee due to job re-arrangement. On the same day, Mr. Tang Ming was appointed as a member of the Nomination Committee.

Following the said changes and as of the date of this report, the members of the Nomination Committee included four Independent Non-Executive Directors, namely Prof. Woo Chia-Wei, Mr. Leung Pak To, Francis, Mr. Cheng Hoi Chuen, Vincent and Mr. Yuen Tin Fan, Francis, as well as representatives from the management, namely Mr. Li Han Sheng and Mr. Tang Ming. Prof. Woo Chia-Wei is the chairman of the committee while the Company Secretary acts as the committee secretary.



CORPORATE GOVERNANCE REPORT

Major Work Done by the Nomination Committee

In 2016, the Nomination Committee held four meetings in the form of written resolutions. The matters considered included review of the structure, size and composition of the Board, the evaluation of independence of independent non-executive directors and the nomination of directors, etc. As the members of the Board come with different professional perspectives, and in terms of the background of our major shareholder and operation model of the Company, the committee is of the view that the Board basically demonstrates a diversified composition and structure.

EXECUTIVE MANAGEMENT

Management Executives

The duties of the Executive Committee as authorized by the Board are delegated to the Management Executives under the committee and will be performed by the respective functional departments. As of the date of this report, members of the Management Executives included Mr. Zhou Jun, Mr. Xu Bo, Mr. Li Han Sheng, Mr. Xu Zhan and Mr. Xu Xiao Bing. The functional departments of the Company included administration, company secretarial, corporate communications, finance, human resources, internal audit, legal, investment operations and the 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 based on their expertise. Professional views are given by various functional departments in accordance with 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 its 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 and Chief Legal and Compliance Officer and the Chief Financial Officer. During the year, the Investment Appraisal Committee conducted appraisals on 14 projects.

COMPANY SECRETARY

The Company Secretary is mainly responsible for sound information communication among the members of the Board and the compliance of the policies 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. During the year, the Company Secretary provided assistance and opinion to the Chairman, Chief Executive Officer, other members of the Board and the management in respect of issues including policy and procedures of the Board, applicable laws and regulations and corporate governance from time to time and arranges continuous professional development programmes for the Directors. The selection, appointment and dismissal of the Company Secretary are approved by the Board. Brief biographical details of the Company Secretary are set out on page 58 of this Annual Report and the Company's website.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDITING

Appointment of External Auditor

In considering the re-appointment of external auditor, 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 been submitted to the committee by the external auditor. Pursuant to the above, the Audit Committee has recommended the Board to re-appoint Messrs. Deloitte Touche Tohmatsu as the external auditor for the Company for 2017, subject to approval by shareholders at the annual general meeting to be held on 22 May 2017.

The audit fee of the external auditor for 2016 amounted to HK\$18,712,000. The Company has also established the Policies on Provision of Non-audit Services by External Auditor, and non-audit services were reported to the Audit Committee each year. The fees for the non-audit services provided to the Group by the Company's external auditor (including its affiliates) for the year were as follows:

Fees for non-audit services	2016 HK\$'000	2015 HK\$'000
Financial due diligence of acquisition project	5,180	2,056
Tax consultation fee	318	252
Others	27	27
Total	5,525	2,335

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 and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the Companies Ordinance. 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 during the year, 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 opinion and report to the shareholders on the relevant financial statements, and such report is set out on pages 69 and 73 of this Annual Report.

In accordance with the Corporate Governance Code, arrangements have been made by the management 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.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving its strategic objectives and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board will also, through the Audit Committee, oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management has provided a confirmation to the Board on the effectiveness of these systems. An Internal Audit Department has been established for monitoring the prudent and effective operation of the Group's risk management and internal control systems (including those of all its major member companies) and respective reports will be 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 all direct subsidiaries within the Group for the purpose of risk assessment according to the significance of the respective projects.



CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2016, the Company has collected information and carried out investigations in respect of risk management and internal control issues for its subsidiaries. Key risk elements affecting the Group and contingency measures adopted were reported to the Audit Committee. No material deviation in the compliance with guidance on risk management and internal controls by the subsidiaries was reported. All subsidiaries have complied with the relevant laws and industry regulations in respect of financial reporting and 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 that the resources allocated, staff qualifications and experience in respect of the accounting, internal auditing and financial reporting functions of the Company as well as training programs and budget were adequate and sufficient.

SHAREHOLDERS

As at 31 December 2016, SIIC, the controlling shareholder of the Company, indirectly held 638,787,748 shares of the Company (excluding the interest in the underlying shares and short positions) with a shareholding percentage at approximately 58.79% (excluding the underlying shares). The percentage of public shareholding was approximately 41.21%.

Connections with Shareholders, Other Stakeholders and Investors

The Company has established the Shareholders' Communication Policy to ensure that shareholders can exercise their powers in an informed manner, and to allow shareholders and investors to improve communications with the Company. In addition, the Board attaches great importance to shareholders' opinion. Each annual general meeting has been taken as an opportunity to communicate directly with shareholders and the 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 (details of which are contained on page 3 under the Section of "Shareholders Enquiries" of this Annual Report). These will be directed to the Company Secretary and forwarded to the Board.

Proceedings at General Meeting

The Company has established proceedings at general meetings which are subject to review and amendments according to regulatory requirements from time to time. During the year, at the general meetings of the Company, the chairman of the meeting exercised the power conferred under the articles of association of the Company that all voting for each proposed resolution was 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 were published by announcements on the same day of such general meetings after they had been held, while the same were uploaded on the website of the Company and 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 a General Meeting

Pursuant to section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all shareholders are entitled to convene a general meeting. The request which may consist of several documents in like form must state the general nature of the business to be dealt with at the general meeting and may include the text of the resolutions proposed. It must be authenticated by the person making such requisition which must be sent to the Company in printed or electronic form for the attention of the Company Secretary.

Moving a Motion at General Meeting

Pursuant to section 615(2) of the Companies Ordinance, (1) shareholders representing at least 2.5% of the total voting rights of all shareholders; or (2) at least 50 shareholders with voting rights at the general meeting concerned may send their duly signed request to the Company in printed or electronic form for the attention of the Company Secretary for matters to be dealt with at a general meeting of the Company.

CORPORATE GOVERNANCE REPORT

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 within a period of seven days commencing on the following day after the dispatch of the notice of such meeting.

INVESTOR RELATIONS

In 2016, the global equity and currency markets fluctuated considerably, affected by the circuit breaker mechanism on the mainland stock market, devaluation of the Renminbi, the Brexit referendum as well as the United States presidential election. The global economic environment and investment market sentiments also remained uncertain. In line with our business development plans and during results announcements, the Company has been maintaining close communication with investors and put in a lot of efforts to promote corporate communications activities. During the year, we organized post-results announcement roadshows and luncheon meetings, and participated in investment conferences held by investment banks where we met investors at one-on-one meetings. Towards the end of 2016, for the respective acquisitions of Hangzhou Bay Bridge and Longjiang Environmental interests, we went to Singapore, London, New York, Chicago and Boston to communicate with investors. Throughout the year, we also met with 130 institutional investors from Asia (including mainland China, Hong Kong, Malaysia, Japan, Singapore and Thailand), the United States, Britain, Australia and Europe to familiarize them with the Company's operations and future development prospects. Such meetings were also intended to keep a rapport with investors, maintain the Company's transparency in the investment market and to enhance our level of governance.

INFORMATION DISCLOSURE

The Company also established its own Inside Information Disclosure Policy and required compliance by all of its subsidiaries with a view to maintain good corporate governance within the Group and to ensure due disclosure of corporate information as well as to enhance corporate transparency. At present, the Group releases business development information in a timely manner through different channels, including the publication of annual and interim reports and business results, the sending of circulars to shareholders, and disclosing latest developments through news conference and press releases. All the above information is published on the website of the Company.

CONSTITUTIONAL DOCUMENTS

During the year, there were no significant changes to the constitutional documents of the Company. The updated Company's articles of association was uploaded on the website of the Company and the Stock Exchange for perusal.

HUMAN RESOURCES

Staff (including Directors) salaries, allowances and bonuses totaled HK\$1,200 million for the year (2015: HK\$1,094 million). Details of Directors' remuneration paid for the year ended 31 December 2016 are set out in note 12 to the financial statements. The remuneration payable to senior management of the Company by band for the year ended 31 December 2016 was as follows:

Remuneration by band (HK\$)	2016
	Number of individuals
0 – 1,000,000	0
1,000,001 – 2,000,000	2
	2



CORPORATE GOVERNANCE REPORT

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 2016, 1,140,000 share options remained outstanding and unexercised under the SIHL Scheme. Apart from that, no share options were granted or outstanding under the SIHL New Scheme during the year.

The SI Urban Development Scheme adopted by SI Urban Development, a subsidiary of the Company, on 12 December 2002 was expired on 11 December 2012, and the SI Urban Development New Scheme was adopted at the annual general meeting held on 16 May 2013. As at 31 December 2016, 41,750,000 share options remained outstanding and unexercised under the SI Urban Development Scheme. Apart from that, no share options were granted or outstanding under the SI Urban Development New Scheme during the year.

SI Environment, a subsidiary of the Company, adopted the SI Environment Scheme at the special general meeting held on 27 April 2012. Up to 31 December 2016, no share options were granted or outstanding under the SI Environment Scheme.

Details of the SIHL Scheme, SIHL New Scheme, SI Urban Development Scheme, SI Urban Development New Scheme and SI Environment Scheme are set out in note 37 to the financial statements.

By Order of the Board

Yee Foo Hei

Company Secretary

29 March 2017

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. WANG Wei *Executive Director, Chairman*

(Appointed on 25 June 2013 ~ Present)

Mr. Wang, aged 62, is the chairman of Shanghai Industrial Investment (Holdings) Company Limited. He holds a college degree and is designated a senior policy advisor. Mr. Wang was division head of the Shanghai Electrical and Mechanical Bureau, head of the grass-roots unit division of the Metallurgical Mining Machinery Co. under the Shanghai Electrical and Mechanical Bureau, general manager of Shanghai Mechanical Engineering Integrated Plant Co., deputy director and director of the Shanghai Civil Affairs Bureau, chairman of Shanghai Agricultural, Industrial and Commercial (Group) Corp. (now as Bright Food (Group) Corporation Ltd.), deputy chief of the General Office of the Shanghai Municipal Government, a full-time deputy secretary-general of the executive committee of 2007 Special Olympics World Summer Games and deputy secretary-general of the Shanghai Municipal Government. He has extensive experience in the leadership role in government authorities and in corporate operation and management.

Mr. ZHOU Jun *Executive Director, Vice Chairman, Chief Executive Officer*

(Appointed on 15 April 2009 ~ Present)

Mr. Zhou, aged 48, is an executive director and the president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also 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. and an executive director of Shanghai Industrial Urban Development Group Limited and a director of certain other subsidiaries of the Group. Mr. Zhou is a non-executive director and the chairman of Shanghai Pharmaceuticals Holdings Co., Ltd. and 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. Mr. Zhou currently is the chairman of Shanghai Galaxy Investments 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 CEO of the Company, 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 is currently a member of the executive committee of the Chinese People's Political Consultative Conference in Shanghai and the chairman of Shanghai Shengtai Investment and Management Limited under Shanghai Charity Foundation. He has over 20 years' professional experience in mergers and acquisitions, securities, finance, real estate, project planning and corporate management.

Mr. XU Bo *Executive Director, Deputy CEO*

(Appointed on 28 December 2012 ~ Present)

Mr. Xu, aged 54, is an executive director, vice president and chief financial controller of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"), the chairman of Nanyang Brothers Tobacco Company, Limited and a director of 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 the general manager of the finance and planning department of SIIC, 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 finance and corporate management.



DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Mr. XU Zhan *Executive Director*

(Appointed on 17 November 2016 ~ Present)

Mr. Xu, aged 47, is an assistant president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also an executive director of SIIC Environment Holdings Ltd. and a director of certain other subsidiaries of the Group. Mr. Xu graduated from Shanghai Jiaotong University and BI Norwegian School of Management with a bachelor's degree in engineering and a master's degree in management studies, and is a fellow member of The Association of Chartered Certified Accountants. He was the general manager and assistant general manager of Shanghai Galaxy Investment Co., Ltd. ("Shanghai Galaxy") and assistant general manager of the finance and planning department of SIIC. He is currently a director of Shanghai Galaxy and the chairman and general manager of SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd. Mr. Xu has many years' experience in finance and investment financing.

Independent Non-Executive Directors

Prof. WOO Chia-Wei *Independent Non-Executive Director*

(Appointed on 15 March 1996 ~ Present)

Prof. Woo, aged 79, is Senior Advisor of Shui On Holdings Limited and President Emeritus of the Hong Kong University of Science and Technology. In addition, Prof. Woo is currently 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 62, 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 a member of the 12th National Committee of the Chinese People's Political Consultative Conference and the chairman of The Chamber of Hong Kong Listed Companies. 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 68, 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., Wing Tai Properties Limited and CK Hutchison Holdings 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 a member of the Advisory Committee on Post-service Employment of Civil Servants and a vice patron of Community Chest of Hong Kong. He is also a senior advisor 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.



DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Mr. YUEN Tin Fan, Francis *Independent Non-Executive Director*

(Appointed on 15 July 2016 ~ Present)

Mr. Yuen, aged 64, is currently the independent non-executive deputy chairman of Pacific Century Regional Developments Limited and an independent non-executive director of Agricultural Bank of China Limited and China Foods Limited. Mr. Yuen was formerly chief executive of The Stock Exchange of Hong Kong Limited (1988-1991), deputy chairman and executive director of the Pacific Century Group, deputy chairman and executive director of PCCW Limited and executive chairman of Pacific Century Insurance Holdings Limited. Mr. Yuen holds a Bachelor of Arts degree in economics from the University of Chicago. He is a member of the Shanghai People's Political Consultative Conference, the chairman of the board of trustees of the Hong Kong Centre for Economic Research, chairman of the advisory board of Ortus Capital Management Limited, and a member of the board of trustees of University of Chicago and Fudan University in Shanghai.

SENIOR MANAGEMENT

Mr. LI Han Sheng

Mr. Li, aged 53, 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 a director, 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. XU Xiao Bing

Mr. Xu, aged 50, was appointed a Deputy CEO of the Company in November 2016. He is an executive director of SIIC Environment Holdings Ltd., a director of Nanyang Brothers Tobacco Company, Limited, Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Luqiao Development Co., Ltd., Shanghai Shen-Yu Development Co., Ltd. and SIIC Management (Shanghai) Ltd. ("SIIC Management"), as well as the vice chairman of General Water of China Co., Ltd. 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, the chief representative of Shanghai Representative Office of the Company, the deputy head of the investment planning department, the head of the enterprise management department, the deputy general manager and general manager of SIIC Management. He has over 20 years' experience in corporate management and investment planning.

PROFESSIONAL STAFF

Mr. YEE Foo Hei, Jackson

Mr. Yee, aged 53, joined the Company in September 2010. He is the Company Secretary and the Chief Legal and Compliance Officer 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.



DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Ms. CHAN Yat Ying, Cherie

Ms. Chan, aged 49, joined the Company in November 1996. She is the Chief Financial Officer and an Assistant CEO of the Company and a director of certain other subsidiaries of the Group. Ms. Chan is also a deputy general manager of the finance and planning department of Shanghai Industrial Investment (Holdings) Company Limited and 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 59, is a director of Shanghai Industrial Investment (Holdings) Company Limited, the chairman and president of Shanghai Industrial Urban Development Group Limited and a director of certain other subsidiaries of the Group. 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 Shanghai Industrial Development Co., Ltd., 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 nearly 40 years' experience in corporate management.

Mr. TANG Jun

Mr. Tang, aged 49, is a director and president of Shanghai Industrial Development Co., Ltd. and a director of 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 a 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 and the Deputy Director of the Foreign Funds Utilization Audit Department, Shanghai Municipal Audit Office, and has over 20 years' practical experience in the fields of auditing and finance.

Mr. FENG Jun

Mr. Feng, aged 53, is an executive director of SIIC Environment Holdings Ltd., the chief representative of Shanghai Representative Office of the Company and the 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. Feng was an Assistant CEO and the Chief Investment Officer of the Company, a director of Nanyang Brothers Tobacco Company, Limited, a deputy manager of 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 nearly 30 years' experience in capital markets operation.

Mr. YANG Chang Min

Mr. Yang, aged 54, is an executive director of SIIC Environment Holdings Ltd. Mr. Yang graduated from Tongji University with a bachelor's degree in environmental engineering and the School of Economic 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.

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Mr. DAI Wei Wei

Mr. Dai, aged 48, is a director and the general manager of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Shen-Yu Development Co., Ltd., a director of Shanghai Luqiao Development Co., Ltd. and SIIC Management (Shanghai) Limited. 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. He has over 20 years' experience in construction and management of infrastructure.

Mr. CHEN Wei Yi

Mr. Chen, aged 56, is a director and the general manager of Shanghai Luqiao Development Co., Ltd., a director of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Shen-Yu Development Co., Ltd. Mr. Chen graduated from The People's Liberation Army of Institute of Electronic Engineering majored in radar engineering and obtained a bachelor's degree of science in engineering, and is designated a senior engineer. He was the deputy general manager of Shanghai Huang Pu River Tunnel and Bridges Development Co., Ltd. and the general manager of Shanghai CITIC Tunnel Development Co., Ltd. He has extensive experience in operation management and maintenance of bridge, tunnel and highway.

Mr. YANG Qiu Hua

Mr. Yang, aged 44, is a director and the general manager of Nanyang Brothers Tobacco Company, Limited. He graduated from East China University of Science and Technology with a master's degree. He holds the designation of senior engineer and economist. Mr. Yang was a vice president of SIIC Investment (Shanghai) Co., Ltd., the vice chairman and general manager of SIIC Investment Company Limited, the chairman of The Tien Chu (Hong Kong) Company Limited and Shanghai International Asset Management (Hong Kong) Company Limited as well as the managing director of Shanghai Sunway Biotech Co., Ltd. He has extensive experience in enterprise management.

Mr. XU Guo Xiong

Mr. Xu, aged 60, is the chairman and chief executive officer of The Wing Fat Printing Company, Limited and the chairman of The Wing Fat Printing (Hong Kong) Limited and Wingfat (Dongguan) Printing Co., Ltd. He is also a vice president of China Packaging Federation. Mr. Xu graduated from Shanghai Normal University majored in Chinese language and literature and Asia International Open University (Macau) with a master's degree in business administration, and is designated a senior policy advisor, leader in Shanghai. He was the president and executive director of the Shanghai Pharmaceuticals Holdings Co., Ltd., an executive director and vice president of Shanghai Pharmaceutical (Group) Co., Ltd., the general manager's assistant and deputy general manager of Shanghai Bicycle Group Co., Ltd, the general manager of the department of industry and the president's assistant of China Hua Yuan Group Co., Ltd, the vice chairman and general manager of Hua Yuan Kai Ma Machinery Co., Ltd., the vice chairman of the China Pharmaceutical Industry Research and Development Association and the vice chairman of China Pharmaceutical Industry Association. He has extensive experience in the decision-making and operations management in large enterprises.

Mr. JIN Guo Ming

Mr. Jin, aged 56, is a director and the general manager of The Wing Fat Printing Company, Limited. He graduated from Zhejiang Institute of Metallurgy Economic 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 2016.

PRINCIPAL ACTIVITIES

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

PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Details of the principal subsidiaries, joint ventures and associates as at 31 December 2016 are set out in notes 48, 49 and 50 to the consolidated financial statements respectively.

BUSINESS REVIEW

A fair review of the Group's business including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, is set out in the section of "Business Review, Discussion and Analysis" set out on pages 10 to 36 of this Annual Report.

Disclosures relating to the compliance with relevant laws and regulations which have a significant impact on the Group, as well as its relationships with its major stakeholders are included in the "Corporate Governance Report" on pages 44 to 55 of this Annual Report.

Such discussion forms part of this Directors' Report.

DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 74 to 77 of this Annual Report.

An interim dividend of HK36 cents per share amounting to HK\$391,164,000 and a special dividend of HK10 cents per share amounting to HK\$108,657,000 to commemorate the twentieth anniversary of the Company's listing, were paid to the shareholders during the year. The Directors recommend the payment of a final dividend of HK46 cents per share to the shareholders whose names appear on the register of members of the Company on 29 May 2017.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the year ended 31 December 2016 and the previous four years is set out on page 188 of this Annual Report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2016 represented retained profits of HK\$14,657,171,000 (2015: HK\$14,013,307,000).

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Wang Wei (*Chairman*)

Zhou Jun (*Vice Chairman & Chief Executive Officer*)

Xu Bo (*Deputy CEO*)

Xu Zhan

(appointed on 17 November 2016)

Zhou Jie

(resigned on 25 August 2016)

Lu Shen

(resigned on 24 January 2017)

Independent Non-Executive Directors

Woo Chia-Wei

Leung Pak To, Francis

Cheng Hoi Chuen, Vincent

Yuen Tin Fan, Francis

(appointed on 15 July 2016)

Lo Ka Shui

(resigned on 30 June 2016)

Dr. Lo Ka Shui resigned as an Independent Non-Executive Director of the Company with effect from 30 June 2016 due to his commitments on other business endeavors.

Mr. Yuen Tin Fan, Francis has been appointed as an Independent Non-Executive Director of the Company with effect from 15 July 2016.

Mr. Zhou Jie resigned as an Executive Director, Vice Chairman and Chief Executive Officer of the Company with effect from 25 August 2016 due to job re-arrangement.

Mr. Zhou Jun remains an Executive Director of the Company and has been re-designated as the Vice Chairman and Chief Executive Officer of the Company with effect from 25 August 2016.

Mr. Xu Zhan was appointed as an Executive Director of the Company with effect from 17 November 2016.

Mr. Lu Shen resigned as an Executive Director and Executive Deputy CEO of the Company with effect from 24 January 2017 upon reaching his retirement age.

The biographical details of the Directors are set out on pages 56 to 58 of this Annual Report. Details of Directors' emoluments are set out in note 12 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. Wang Wei, Mr. Xu Bo and Mr. Leung Pak To, Francis 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 Zhan who was newly appointed as a Director of the Company during the current year shall retire at the forthcoming annual general meeting. He, being eligible, has offered himself for re-election at the forthcoming annual general meeting.

Mr. Yuen Tin Fan, Francis who was appointed Director of the Company on 15 July 2016 was subject to re-election in accordance with the Company's articles of association, and offered himself for re-election at the extraordinary general meeting held on 16 November 2016. He was re-elected as a Director of the Company at the said meeting.

DIRECTORS OF THE SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2016 or during the period from 1 January 2017 to the date of this report are available on the website of the Company.



DIRECTORS' REPORT

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.

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2016 and up to the date of this report, the Company has in force permitted indemnity provisions for the benefits of the directors of the Company (including former directors) or of its associated companies.

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

Changes in Directors' information since the date of the interim report 2016 up to the date of this report are set out below:

Mr. Zhou Jun

- appointed as the president of Shanghai Industrial Investment (Holdings) Company Limited on 23 September 2016.
- appointed as a non-executive director and the chairman of Shanghai Pharmaceutical Holdings Co., Ltd. on 20 October 2016.

Mr. Xu Bo

- appointed as an executive director of Shanghai Industrial Investment (Holdings) Company Limited on 11 October 2016.
- appointed as the chairman of Nanyang Brothers Tobacco Company, Limited on 29 March 2017.

Mr. Xu Zhan

- resigned as the chief financial officer of SIIC Environment Holdings Ltd. with effect from 3 February 2017.

Mr. Yuen Tin Fan, Francis

- resigned as an independent non-executive director of China Chengxin International Credit Rating Co., Ltd. on 21 December 2016.

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

At 31 December 2016, 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
Zhou Jun	Beneficial owner	Personal	195,000	–	195,000	0.02%
Xu Bo	Beneficial owner	Personal	–	600,000	600,000	0.06%

Notes:

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

DIRECTORS' REPORT

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

SI Development

Name of Director	Class of shares	Capacity	Nature of interests	Number of outstanding share options	Approximate percentage of the issued share capital
Lu Shen ^(Note 2)	A share	Beneficial owner	Personal	101,200	0.005%

Notes:

- All interests stated above represent long positions.
- Mr. Lu Shen resigned as a Director of the Company on 24 January 2017.

SI Urban Development

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

Notes:

- All interests stated above represent long positions.
- 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 the issued share capital
Lu Shen ^(Note 2)	A share	Beneficial owner	Personal	6,440	0.0003%

Notes:

- All interests stated above represent long positions.
- Mr. Lu Shen resigned as a Director of the Company on 24 January 2017.

Save as disclosed above, none of the Directors, chief executives nor their associates had any interests or short positions in any 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 2016.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsisting at the end of the year are set out below:

Share options

Particulars of the share option schemes adopted by the Group are set out in note 37 to the consolidated financial statements.



DIRECTORS' REPORT

(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:

	Date of grant	Exercise price per share HK\$	Number of shares issuable under the share options					Outstanding at 31.12.2016
			Outstanding at 1.1.2016	Exercised during the year	Reclassified during the year	Cancelled during the year	Lapsed during the year	
Category 1: Directors								
Zhou Jun	20.9.2011	22.71	600,000	-	-	-	(600,000)	-
Xu Bo	16.5.2012	23.69	600,000	-	-	-	-	600,000
Woo Chia-Wei	20.9.2011	22.71	96,000	-	-	-	(96,000)	-
Leung Pak To, Francis	20.9.2011	22.71	96,000	-	-	-	(96,000)	-
Zhou Jie ^(Note 1)	20.9.2011	22.71	680,000	-	(680,000)	-	-	-
Lu Shen ^(Note 2)	20.9.2011	22.71	600,000	-	-	-	(600,000)	-
Lo Ka Shui ^(Note 3)	20.9.2011	22.71	96,000	-	(96,000)	-	-	-
Total			2,768,000	-	(776,000)	-	(1,392,000)	600,000
Category 2: Employees								
	20.9.2011	22.71	7,496,000	(418,000)	-	(80,000)	(6,998,000)	-
	16.5.2012	23.69	540,000	-	-	-	-	540,000
Total			8,036,000	(418,000)	-	(80,000)	(6,998,000)	540,000
Category 3: Others								
	20.9.2011	22.71	3,837,000	(297,000)	776,000	(156,000)	(4,160,000)	-
Total for all categories			14,641,000	(715,000)	-	(236,000)	(12,550,000)	1,140,000

Notes:

1. Mr. Zhou Jie resigned as a Director of the Company on 25 August 2016.
2. Mr. Lu Shen resigned as a Director of the Company on 24 January 2017.
3. Dr. Lo Ka Shui resigned as a Director of the Company on 30 June 2016.

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\$23.09.

DIRECTORS' REPORT

(II) SIHL New Scheme

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

(III) SI Urban Development Scheme

The SI Urban Development Scheme was valid and effective for a period of 10 years commencing the date of its adoption and expired on 11 December 2012. 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:

	Date of grant	Exercise price per share HK\$	Number of shares issuable under the share options		
			Outstanding at 1.1.2016	Cancelled during the year	Outstanding at 31.12.2016
<i>Category 1: Director of SI Urban Development, who is also Director of the Company</i>					
Zhou Jun	24.9.2010	2.98	7,000,000	–	7,000,000
<i>Category 2: Other directors of SI Urban Development</i>					
	24.9.2010	2.98	23,000,000	(1,000,000)	22,000,000
<i>Category 3: Employees of SI Urban Development</i>					
	24.9.2010	2.98	12,750,000	–	12,750,000
Total for all categories			42,750,000	(1,000,000)	41,750,000

Share options granted in September 2012 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 Urban Development New Scheme

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

(V) SI Environment Scheme

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

Convertible Bonds

Particulars of the convertible bonds issued, repurchased and redeemed by the Group are set out in note 35 to the consolidated financial statements.

Tong Jie Limited, a wholly owned subsidiary of the Company, issued zero coupon convertible bonds with a principal amount of HK\$3,900,000,000 (the "Convertible Bonds") to public investors in February 2013. Unless early redeemed, the Convertible Bonds will be redeemed at 105.11% of the principal amount on 18 February 2018. The bonds are guaranteed by the Company and listed on the Stock Exchange.

The proceeds from the Convertible Bonds have been used to fund investments in infrastructure facilities business, fixed assets investment in consumer products business and for general working capital purpose of the Group.



DIRECTORS' REPORT

On 18 February 2016, certain bondholders exercised their redemption option and the Company redeemed and cancelled a principal amount of HK\$3,437,000,000 of the Convertible Bonds, representing approximately 88.13% of the initial principal amount of the bonds, for a consideration of HK\$3,541,408,000, in accordance with the terms and conditions of the Convertible Bonds. During the year, the Company also repurchased part of the Convertible Bonds with a principal amount of HK\$108,000,000 at a consideration of HK\$109,080,000.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY

Save as disclosed under the section "Equity-linked Agreements" above, neither the Company or a specified undertaking (within the meaning of the Hong Kong Companies Ordinance) of the Company was a party to any other 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 at any time during or at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts that are significant in relation to the Group's business, to which the Company or a specified undertaking (within the meaning of the Hong Kong Companies Ordinance) of the Company was a party and in which a person who at any time in the year was a Director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, 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	Number of issued ordinary shares beneficially held	Approximate percentage of the issued share capital
SIIC	Interests held by controlled corporations	Corporate	638,787,748 <small>(Notes 1 & 2)</small>	58.79%

Notes:

- SIIC through its subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, SIIC Trading Company Limited, Shanghai Industrial Financial (Holdings) Company Limited, SIIC Treasury (B.V.I.) Limited, SIIC CM Development Funds Limited, The Tien Chu Ve Tsin (Hong Kong) Company Limited, South Pacific Hotel (Hong Kong) Limited, South Pacific International Trading Limited and SIIC CM Development Limited held 519,409,748 shares, 80,000,000 shares, 14,020,000 shares, 13,685,000 shares, 3,782,000 shares, 3,005,000 shares, 2,430,000 shares, 2,156,000 shares, 290,000 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.
- 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 2016.

CONNECTED TRANSACTIONS

Details of the connected transactions and continuing connected transactions for the year are set out in note 45(I) 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.56 of the Listing Rules, the Directors engaged the auditor of the Company to report on the 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 issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and 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.

DIRECTORS' REPORT

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 45(II) to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate revenue from 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, the Company repurchased certain of its Convertible Bonds through the Stock Exchange, details of which are set out in note 35 to the consolidated financial statements. The Directors considered that, as the Company's Convertible Bonds were trading at a discount to the net assets value per share, the repurchases would increase the net assets value per share of the Company.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$2,969,000.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 44 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, 41.21% 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 2016.

CORPORATE GOVERNANCE

The corporate governance principles and practices adopted by the Company are set out in the Corporate Governance Report on pages 44 to 55 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



Wang Wei
Chairman

Hong Kong, 29 March 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

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)

OPINION

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 74 to 187, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance (the “CO”).

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter

Control over SIIC Environment Holdings Ltd. ("SI Environment")

We identified the control over SI Environment as a key audit matter due to the significant judgement associated with the assessment of control over SI Environment performed by the directors of the Company as at 31 December 2016.

As disclosed in note 5 to the consolidated financial statements, SI Environment is listed on the Singapore Exchange Securities Trading Limited and the Group had only 37.57% ownership interest and voting rights in SI Environment as at 31 December 2016.

The directors of the Company assessed whether the Group had the practical ability to direct the relevant activities of SI Environment unilaterally by considering the Group's absolute size of holding in SI Environment, the relative size and dispersion of holdings of other shareholders and the practical right to appoint the majority members of the board of directors of SI Environment. After their assessment, the directors of the Company concluded that the Group has the current ability to direct the relevant activities of SI Environment and affect the amount of the Group's return. Therefore, the Group has control over SI Environment.

How our audit addressed the key audit matter

Our procedures in relation to the control over SI Environment included:

- Obtaining an understanding of the assessment of control performed by the directors of the Company to evaluate their basis based on the requirements of Hong Kong Financial Reporting Standards 10 "Consolidated Financial Statements";
- Checking the percentage of equity interest in SI Environment owned by the Group and its voting rights as well as assessing the percentage of equity interests and voting rights owned by the remaining shareholders;
- Assessing the practical right to appoint the majority members of the board of directors of SI Environment; and
- Examining the Group's attendance and voting records in shareholders' meetings of SI Environment.



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to its significance to the consolidated financial statements as whole and the significant judgment and estimation associated with determining the fair values of investment properties.

As disclosed in note 15 to the consolidated financial statements, the fair values of the Group's investment properties amounted to HK\$18,619,278,000 as at 31 December 2016 with the increase in fair value of investment properties before taxation of HK\$305,450,000 recognised in the consolidated statement of profit or loss for the year then ended under the line item "other income, gains and losses".

The fair values of the Group's investment properties as at 31 December 2016 have been arrived at on the basis of valuations carried out by an independent qualified professional valuer not connected with the Group (the "Valuer"). Details of the valuation techniques and significant unobservable inputs used in the valuations are disclosed in note 15 to the consolidated financial statements. The fair values are dependent on certain significant unobservable inputs that involve judgment and estimation made by the management of the Group together with the Valuer, including, among other factors, reversionary yield, adjustment to transaction price and discount rate.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of the investment properties included:

- Evaluating the competence, capabilities and objectivity of the Valuer;
- Obtaining an understanding from the Valuer and the management of the Group on the valuation process to understand the performance of property markets, significant assumptions adopted and data used in the valuations;
- Evaluating the reasonableness of the methodologies adopted in the valuation models; and
- Assessing the reasonableness of the significant unobservable inputs used in the valuations by checking, on a sample basis, to the publicly available information and comparing the data used in the valuations to entity-specific historical information.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Chan Tsz Wai.



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000 (restated)
Revenue	6	22,131,758	19,693,682
Cost of sales		(14,460,588)	(12,432,790)
Gross profit		7,671,170	7,260,892
Net investment income	7	731,408	998,095
Other income, gains and losses		888,455	(103,517)
Selling and distribution costs		(1,070,256)	(892,956)
Administrative and other expenses		(2,307,635)	(1,792,938)
Finance costs	8	(1,426,982)	(1,613,526)
Share of results of joint ventures		214,147	178,208
Share of results of associates		73,030	80,225
Net gain on disposal of assets through disposal of interests in subsidiaries/disposal of interests in subsidiaries and associates	9	2,725,933	1,648,502
Profit before taxation		7,499,270	5,762,985
Income tax expense	10	(2,659,370)	(2,071,025)
Profit for the year	11	4,839,900	3,691,960
Profit for the year attributable to			
– Owners of the Company		2,903,030	2,826,764
– Non-controlling interests		1,936,870	865,196
		4,839,900	3,691,960
		HK\$	HK\$ (restated)
Earnings per share	14		
– Basic		2.673	2.605
– Diluted		2.639	2.500

The notes on pages 83 to 187 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000 (restated)
Profit for the year	4,839,900	3,691,960
Other comprehensive (expense) income		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising on translation		
of foreign operations		
– subsidiaries	(2,594,309)	(2,025,001)
– joint ventures	(248,214)	(139,336)
– associates	(255,669)	(161,519)
Fair value change on available-for-sale investments held by subsidiaries	27,469	183,750
Reclassification on disposal of available-for-sale investments held by subsidiaries	(66)	(26,020)
Reclassification of translation reserve upon disposal of associates	(11,106)	–
Reclassification of translation reserve upon disposal of interests in other subsidiaries	–	1,965
Other comprehensive expense for the year	(3,081,895)	(2,166,161)
Total comprehensive income for the year	1,758,005	1,525,799
Total comprehensive income for the year attributable to		
– Owners of the Company	760,325	1,484,156
– Non-controlling interests	997,680	41,643
	1,758,005	1,525,799

The notes on pages 83 to 187 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	31.12.2016 HK\$'000	31.12.2015 HK\$'000 (restated)	1.1.2015 HK\$'000 (restated)
Non-Current Assets				
Investment properties	15	18,619,278	15,362,596	15,979,200
Property, plant and equipment	16	4,388,915	4,312,097	4,661,883
Prepaid lease payments – non-current portion	17	243,135	262,995	283,248
Toll road operating rights	18	9,812,934	11,319,899	12,633,146
Goodwill	19	809,347	572,855	–
Other intangible assets	20	7,325,733	3,918,690	1,964,974
Interests in joint ventures	21	3,467,597	3,334,796	3,351,253
Interests in associates	22	3,378,695	4,436,017	4,428,332
Investments	23	1,170,084	1,192,559	1,005,180
Receivables under service concession arrangements – non-current portion	24	12,489,936	5,870,222	4,379,747
Deposits paid on acquisition of a subsidiary/property, plant and equipment	25	139,974	622,009	171,727
Other non-current receivables	26	58,732	194,872	–
Deferred tax assets	27	458,621	417,094	413,095
		62,362,981	51,816,701	49,271,785
Current Assets				
Inventories	28	45,899,422	52,844,091	53,298,120
Trade and other receivables	29	9,242,575	10,652,663	7,512,760
Prepaid lease payments – current portion	17	5,293	5,982	6,143
Investments	23	226,967	444,187	490,200
Receivables under service concession arrangements – current portion	24	244,374	166,658	137,176
Amounts due from customers for contract work	30	710,079	82,135	87,499
Prepaid taxation		503,469	200,844	218,195
Pledged bank deposits	31	430,853	362,252	742,973
Short-term bank deposits	31	309,705	1,314,414	469,736
Bank balances and cash	31	31,312,457	26,810,766	27,087,806
		88,885,194	92,883,992	90,050,608
Assets classified as held for sale		–	–	691,728
		88,885,194	92,883,992	90,742,336

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016


	Notes	31.12.2016 HK\$'000	31.12.2015 HK\$'000 (restated)	1.1.2015 HK\$'000 (restated)
Current Liabilities				
Trade and other payables	32	14,665,883	22,592,958	24,357,415
Customer deposits from sales of properties	33	14,776,557	7,410,541	5,415,008
Amounts due to customers for contract work	30	23,879	24,998	30,681
Taxation payable		4,207,441	3,386,361	3,763,484
Bank and other borrowings	34	8,553,493	10,977,611	18,456,862
Convertible bonds	35	32,722	3,681,843	–
		42,259,975	48,074,312	52,023,450
Liabilities associated with assets classified as held for sale		–	–	28
		42,259,975	48,074,312	52,023,478
Net Current Assets		46,625,219	44,809,680	38,718,858
Total Assets less Current Liabilities		108,988,200	96,626,381	87,990,643
Capital and Reserves				
Share capital	36	13,633,449	13,615,889	13,527,827
Reserves	36	23,282,840	22,415,745	21,743,656
Equity attributable to owners of the Company		36,916,289	36,031,634	35,271,483
Non-controlling interests		25,556,228	19,261,616	18,203,768
Total Equity		62,472,517	55,293,250	53,475,251
Non-Current Liabilities				
Provision for major overhauls	24	82,077	72,294	78,934
Bank and other borrowings	34	37,595,994	33,957,371	23,562,297
Convertible bonds	35	–	–	3,826,613
Deferred tax liabilities	27	8,837,612	7,303,466	7,047,548
		46,515,683	41,333,131	34,515,392
Total Equity and Non-Current Liabilities		108,988,200	96,626,381	87,990,643

The notes on pages 83 to 187 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 74 to 187 were approved and authorised for issue by the board of directors on 29 March 2017 and are signed on its behalf by:



Zhou Jun
Chief Executive Officer



Xu Bo
Deputy CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company										Attributable to non-controlling interests					Total HK\$'000
	Share capital HK\$'000	Share options reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Other revaluation reserve HK\$'000 (Note i)	Other reserve HK\$'000 (Note ii)	Merger reserve HK\$'000 (Note iii)	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	PRC statutory reserves HK\$'000 (Note iv)	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	
At 1 January 2015, as originally stated	13,527,827	163,778	114,442	54,855	478,225	(5,938,972)	297,023	2,999,124	1,136,075	22,396,046	35,228,423	30,582	66,842	18,106,344	18,203,768	53,432,191
Effect of inclusion of Yield Express Group (Note 2)	-	-	-	-	-	50,536	-	(16,472)	-	8,996	43,060	-	-	-	-	43,060
At 1 January 2015, as restated	13,527,827	163,778	114,442	54,855	478,225	(5,888,436)	297,023	2,982,652	1,136,075	22,405,042	35,271,483	30,582	66,842	18,106,344	18,203,768	53,475,251
Profit for the year, as restated	-	-	-	-	-	-	-	-	-	2,826,764	2,826,764	-	-	865,196	865,196	3,691,960
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- subsidiaries, as restated	-	-	-	-	-	-	-	(1,120,260)	-	-	(1,120,260)	-	-	(904,741)	(904,741)	(2,025,001)
- joint ventures	-	-	-	-	-	-	-	(139,336)	-	-	(139,336)	-	-	-	-	(139,336)
- associates	-	-	-	-	-	-	-	(161,519)	-	-	(161,519)	-	-	-	-	(161,519)
Fair value change on available-for-sale investments held by subsidiaries	-	-	-	-	-	-	102,562	-	-	-	102,562	-	-	81,188	81,188	183,750
Reclassification on disposal of available-for-sale investments held by subsidiaries	-	-	-	-	-	-	(26,020)	-	-	-	(26,020)	-	-	-	-	(26,020)
Reclassification on disposal of interests in other subsidiaries (Note 39(iii))	-	-	-	-	-	-	-	1,965	-	-	1,965	-	-	-	-	1,965
Total comprehensive income (expense) for the year, as restated	-	-	-	-	-	-	76,542	(1,419,150)	-	2,826,764	1,484,156	-	-	41,643	41,643	1,525,799
Issue of shares upon exercise of share options	88,062	(6,637)	-	-	-	-	-	-	-	-	81,425	-	-	-	-	81,425
Lapse of share options	-	(129,258)	-	-	-	-	-	-	-	129,258	-	-	-	-	-	-
Transfers, as restated	-	-	-	-	-	-	-	194,190	(194,190)	-	-	-	-	-	-	-
Capital contributions by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	49,988	49,988	49,988	
Acquisition of other subsidiaries (Note 38(i))	-	-	-	-	-	-	-	-	-	-	-	-	13,610	13,610	13,610	
Acquisition of additional interests in subsidiaries	-	-	-	-	(10,570)	-	-	-	-	-	(10,570)	-	-	(487,745)	(487,745)	(498,315)
Acquisition of Fudan Water (Note 38(iii))	-	-	-	-	-	-	-	-	-	-	-	-	674,915	674,915	674,915	
Deemed partial disposal of interest in a listed subsidiary upon issuance of earn-out shares	-	-	-	-	(29,205)	-	-	-	-	-	(29,205)	(30,582)	-	59,787	29,205	-
Deemed partial disposal of interest in a listed subsidiary upon issuance of consideration shares (Note 38(iii))	-	-	-	-	381,667	-	-	-	-	-	381,667	-	-	1,480,924	1,480,924	1,862,591
Deregistration of subsidiaries	-	-	-	-	-	111,251	-	(6,056)	(105,195)	-	-	-	-	(142,107)	(142,107)	(142,107)
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	(879,740)	(879,740)	-	-	-	-	-	(879,740)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(590,051)	(590,051)	(590,051)	
Dividends declared by Shanghai Investment and payable to SIC Shanghai	-	-	-	-	-	-	-	-	(266,022)	(266,022)	-	-	-	-	-	(266,022)
Repurchase of convertible bonds (Note 35)	-	-	(9,486)	-	-	-	-	-	5,608	(3,878)	-	-	-	-	-	(3,878)
Repurchase of shares (Note 35(i))	-	-	-	-	-	-	-	-	(9,906)	(9,906)	-	-	-	-	-	(9,906)
Transfer upon forfeiture of share options of a listed subsidiary	-	-	-	-	-	-	-	-	12,224	12,224	-	(17,475)	5,251	(12,224)	-	
Repurchase of shares by a listed subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(310)	(310)	(310)	
At 31 December 2015, as restated	13,615,889	27,883	104,956	54,855	820,117	(5,777,185)	373,565	1,563,502	1,324,209	23,923,843	36,031,634	-	49,367	19,212,249	19,261,616	55,293,250

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company										Attributable to non-controlling interests				
	Share capital HK\$'000	Share options reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Other revaluation reserve HK\$'000 (Note i)	Other reserve HK\$'000 (Note ii)	Merger reserve HK\$'000 (Note iii)	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	PRC statutory reserves HK\$'000 (Note iv)	Retained profits HK\$'000	Sub-total 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 2016, as restated	13,615,889	27,883	104,956	54,855	820,117	(5,777,185)	373,565	1,563,502	1,324,209	23,923,843	36,031,634	49,367	19,212,249	19,261,616	55,293,250
Profit for the year	-	-	-	-	-	-	-	-	2,903,030	2,903,030	-	-	1,936,870	1,936,870	4,839,900
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- subsidiaries	-	-	-	-	-	-	-	(1,636,177)	-	-	(1,636,177)	-	(958,132)	(958,132)	(2,594,309)
- joint ventures	-	-	-	-	-	-	-	(248,214)	-	-	(248,214)	-	-	-	(248,214)
- associates	-	-	-	-	-	-	-	(255,669)	-	-	(255,669)	-	-	-	(255,669)
Fair value change on available-for-sale investments held by subsidiaries	-	-	-	-	-	-	8,527	-	-	8,527	-	-	18,942	18,942	27,469
Reclassification on disposal of available-for-sale investments held by subsidiaries	-	-	-	-	-	-	(66)	-	-	(66)	-	-	-	-	(66)
Reclassification on disposal of associates	-	-	-	-	-	-	-	(11,106)	(4,385)	4,385	(11,106)	-	-	-	(11,106)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	8,461	(2,151,166)	(4,385)	2,907,415	760,325	-	997,680	997,680	1,758,005
Issue of shares upon exercise of share options	17,560	(1,323)	-	-	-	-	-	-	-	-	16,237	-	-	-	16,237
Lapse of share options	-	(24,632)	-	-	-	-	-	-	24,632	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	238,585	(238,585)	-	-	-	-	-
Capital contributions by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	225,894	225,894	225,894
Contribution from a non-controlling shareholder upon capitalisation of its borrowing to the Group	-	-	-	-	-	-	-	-	-	-	-	-	2,315,555	2,315,555	2,315,555
Acquisition of Longjiang Environmental Protection (Note 38(i))	-	-	-	-	-	-	-	-	-	-	-	-	305,292	305,292	305,292
Acquisition of subsidiaries (Note 38(iiv))	-	-	-	-	-	-	-	-	-	-	-	-	537,069	537,069	537,069
Acquisition of additional interests in listed subsidiaries	-	-	-	-	(56,787)	-	-	-	-	-	(56,787)	-	(105,372)	(105,372)	(162,159)
Acquisition of additional interests in subsidiaries	-	-	-	-	(19,385)	-	-	-	-	-	(19,385)	-	(1,082,772)	(1,082,772)	(1,102,157)
Deemed partial disposal of interest in a listed subsidiary upon issuance of consideration shares (Note 38(iiv))	-	-	-	-	48,039	-	-	-	-	-	48,039	-	117,412	117,412	165,451
Deemed partial disposal of interest in a listed subsidiary upon share placement (Note v)	-	-	-	-	1,242,263	-	-	-	-	-	1,242,263	-	3,172,541	3,172,541	4,414,804
Deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(25,917)	(25,917)	(25,917)
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	(988,453)	(988,453)	-	-	-	-	(988,453)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(161,955)	(161,955)	(161,955)
Dividends declared by Yield Express and payable to SIIC	-	-	-	-	-	-	-	-	(53,046)	(53,046)	-	-	-	-	(53,046)
Redemption of convertible bonds (Note 35)	-	-	(100,848)	-	-	-	-	-	34,014	(66,834)	-	-	-	-	(66,834)
Repurchase of convertible bonds (Note 35)	-	-	(3,169)	-	-	-	-	-	4,650	1,481	-	-	-	-	1,481
Transfer upon forfeiture of share options of a listed subsidiary	-	-	-	-	-	-	-	-	815	815	(1,165)	350	(815)	-	-
At 31 December 2016	13,633,449	1,928	939	54,855	2,034,247	(5,777,185)	382,026	(587,664)	1,558,409	25,615,285	36,916,289	48,202	25,508,026	25,556,228	62,472,517

The notes on pages 83 to 187 are an integral part of these consolidated financial statements.

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/joint ventures 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, joint ventures 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) 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.
- (iv) 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, joint ventures and associates.
- (v) On 26 January 2016, a non-wholly owned listed subsidiary of the Group, Shanghai Industrial Development Co., Ltd. ("SI Development"), completed a share placing of 335,523,659 new ordinary shares, representing 30.97% of its total issued shares prior to the share placing or 23.65% of the enlarged capital of SI Development, at an issue price of RMB11.63 (equivalent to approximately HK\$13.89) per share and raised a total sum of RMB3,855,200,000 (equivalent to HK\$4,580,255,000). Upon the completion of the share placing, the Group's shareholding in SI Development was diluted from 63.65% to 48.60%.

The Group accounted for the above shares placing as an equity transaction and the difference between the consideration received and the change of the Group's interest in SI Development's net assets amounting to approximately HK\$1,242 million was credited to other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	7,499,270	5,762,985
Adjustments for:		
Amortisation of other intangible assets	206,108	129,981
Amortisation of toll road operating rights	809,009	776,386
Depreciation of property, plant and equipment	365,693	335,644
Dividend income from equity investments	(9,057)	(169,812)
Finance costs	1,426,982	1,613,526
Gain on disposal of available-for-sale investments	(15,374)	(183,036)
Gain on redemption of convertible bonds	(66,415)	–
Loss on repurchase of convertible bonds	850	352
Net gain on disposal of assets through disposal of interests in subsidiaries/disposal of interest in subsidiaries and associates	(2,725,933)	(1,648,502)
Impairment loss on bad and doubtful debts	55,156	17,497
Impairment loss on inventories, other than properties	4,475	1,340
Impairment loss on properties held for sale	224,631	31,911
Impairment loss on goodwill	38,235	–
Impairment loss on interest in associates	969	–
Increase in fair value of investment properties	(305,450)	(96,402)
Interest income	(698,116)	(675,520)
Net loss (gain) on disposal/written off of property, plant and equipment	762	(40,202)
Provision for major overhauls	5,739	242
Release of prepaid lease payments	7,484	7,809
Reversal of impairment loss on bad and doubtful debts	(2,719)	(1,726)
Reversal of impairment loss on other receivables	(6,277)	(3,357)
Reversal of impairment loss on properties held for sale upon subsequent sale	–	(35,068)
Share of results of associates	(73,030)	(80,225)
Share of results of joint ventures	(214,147)	(178,208)
Operating cash flows before movements in working capital	6,528,845	5,565,615
Decrease (increase) in inventories	3,683,389	(4,271,592)
(Increase) decrease in financial assets at fair value through profit or loss	(15,922)	41,295
Increase in trade and other receivables	(1,798,638)	(2,258,706)
Increase in receivables under service concession arrangements	(935,547)	(490,341)
Net movement in amounts due from (to) customers for contract work	(632,776)	(2,843)
(Decrease) increase in trade and other payables	(3,183,578)	1,972,888
Increase in customer deposits from sales of properties	7,847,585	2,236,085
Increase in provision for major overhauls	(4,234)	(4,686)
Cash generated from (used in) operations	11,489,124	2,787,715
PRC Enterprise Income Tax (“EIT”) paid	(1,273,015)	(1,308,347)
PRC Land Appreciation Tax (“LAT”) paid	(686,818)	(877,127)
Hong Kong Profits Tax paid	(268,583)	(215,208)
NET CASH FROM OPERATING ACTIVITIES	9,260,708	387,033

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000 (restated)
INVESTING ACTIVITIES			
Settlement of consideration payables for acquisition of subsidiaries		(2,595,516)	(636,025)
Acquisition of Shanghai Qiyao	38(II)	(2,338,081)	–
Purchase of available-for-sale investments		(1,042,784)	(54,050)
Purchase of property, plant and equipment		(596,046)	(183,345)
Purchase of and subsequent expenditures on investment properties		(418,525)	–
Acquisition of Longjiang Environmental Protection	38(I)	(415,204)	–
Acquisition of other subsidiaries	38(IV)	(413,156)	(84,605)
Capital injection to a joint venture		(175,234)	–
Acquisition of associates		(113,630)	(103,547)
Purchase of operating concessions		(65,810)	(44,043)
Advance to an independent third party	26	(22,679)	(194,872)
Acquisition of a joint venture		(113)	–
Disposal of assets through disposal of interest in a subsidiary	39(I)	2,118,926	–
Proceeds from disposal of available-for-sale investments		1,252,638	159,864
(Decrease) increase in restricted/pledged/short-term bank deposits		939,463	(458,958)
Interest received		698,116	675,520
(Decrease) increase in deposits paid on acquisition of property, plant and equipment		167,115	(106,136)
Repayment from an independent third party	26	151,869	–
Dividends received from associates		76,831	22,772
Proceeds from disposal of property, plant and equipment		50,169	163,686
Proceeds from disposal of investment properties	15	35,061	–
Proceeds from disposal of interests in associates		11,228	36,899
Disposal of operating concession		9,854	–
Dividends received from equity investments		9,057	169,812
Dividends received from joint ventures		8,479	55,329
Deposits received for identifying investment projects	32	–	1,633,628
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	39(II)	–	1,150,478
Disposal of disposal group (net of cash and cash equivalents disposed of)	39(III)	–	1,074,628
Repayment from joint ventures		–	179,126
Deposit paid on acquisition of a piece of land for property development for sale	29	–	(918,319)
Acquisition of Fudan Water	38(III)	–	(747,991)
Deposit paid on acquisition of a subsidiary		–	(344,146)
Net cash outflow on deregistration of non-wholly owned subsidiaries		–	(142,107)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(2,667,972)	1,303,598

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000 (restated)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		(20,407,190)	(14,369,817)
Redemption of convertible bonds	35	(3,541,408)	–
Interest paid		(1,425,404)	(1,436,060)
Acquisition of additional interests in subsidiaries		(1,102,156)	(498,315)
Dividends paid		(988,453)	(879,740)
Acquisition of additional interests in a listed subsidiary		(162,159)	–
Dividends paid to non-controlling interests		(161,955)	(590,051)
Repurchase of convertible bonds	35	(109,080)	(329,315)
Dividends declared by Yield Express and payable to SIIC		(53,046)	–
Bank and other borrowings raised		21,968,047	11,052,192
Proceeds from shares placing by a listed subsidiary, net of direct transaction costs		4,414,804	–
Capital contributions by non-controlling interests		225,894	49,988
Advances from (repayment to) fellow subsidiaries		44,995	(93,269)
Advance from (repayment to) related parties		39,541	(3,664)
Proceeds from issue of shares upon exercise of share options		16,237	81,425
Acquisition of Shanghai Investment	2	–	(1,454,025)
Dividends declared by Shanghai Investment and payable to SIIC Shanghai		–	(266,022)
Repurchase of shares	36(ii)	–	(9,906)
Repurchase of shares by a listed subsidiary		–	(310)
Issuance of listed bonds		–	7,126,003
Advances from related parties		–	168,363
NET CASH USED IN FINANCING ACTIVITIES		(1,241,333)	(1,452,523)
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,351,403	238,108
CASH AND CASH EQUIVALENTS AT 1 JANUARY		26,810,766	27,087,912
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(849,712)	(515,254)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		31,312,457	26,810,766

The notes on pages 83 to 187 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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, joint ventures and associates are set out in Notes 48, 49 and 50, respectively.

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

2. MERGER ACCOUNTING AND RESTATEMENTS

The Group accounts for all its business combinations involving entities under common control using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

In September 2016, the Group, through a wholly owned subsidiary, S.I. Infrastructure Holdings Limited, completed the acquisition of 100% equity interest in Yield Express Limited ("Yield Express") from SIIC and transferred a related shareholder's loan, at a total cash consideration of HK\$1,803,000,000.

Yield Express, through its wholly owned subsidiaries, holds approximately 23.06% equity interest in 寧波市杭州灣大橋發展有限公司 ("Hangzhou Bay Bridge"), which principally engages in the investment, operation and management of the bridge and its ancillary facilities.

In applying AG 5 to the acquisition of Yield Express, the consolidated statements of financial position of the Group as at 1 January 2015 and 31 December 2015 have been restated to include the assets and liabilities of Yield Express and its subsidiaries (collectively referred to as the "Yield Express Group") as if they were within the Group on that date (see below for the financial impact). The consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2015 have also been restated to include the financial performance, changes in equity and cash flows of the Yield Express Group as if they were within the Group since 1 January 2015 (also see below for the financial impact).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. MERGER ACCOUNTING AND RESTATEMENTS (Continued)

The effects of acquisition of the Yield Express Group using merger accounting on the consolidated statement of profit or loss for the year ended 31 December 2015 are as follows:

	HK\$'000 (originally stated)	Adjustments on merger accounting HK\$'000 (Note)	HK\$'000 (restated)
Revenue	19,693,682	–	19,693,682
Cost of sales	(12,432,790)	–	(12,432,790)
Gross profit	7,260,892	–	7,260,892
Net investment income	998,087	8	998,095
Other income, gains and losses	(103,510)	(7)	(103,517)
Selling and distribution costs	(892,956)	–	(892,956)
Administrative and other expenses	(1,792,482)	(456)	(1,792,938)
Finance costs	(1,613,526)	–	(1,613,526)
Share of results of joint ventures	178,208	–	178,208
Share of results of associates	23,174	57,051	80,225
Net gain on disposal of interests in subsidiaries and an associate	1,648,502	–	1,648,502
Profit before taxation	5,706,389	56,596	5,762,985
Income tax expense	(2,071,025)	–	(2,071,025)
Profit for the year	3,635,364	56,596	3,691,960
Profit for the year attributable to			
– Owners of the Company	2,770,168	56,596	2,826,764
– Non-controlling interests	865,196	–	865,196
	3,635,364	56,596	3,691,960
	HK\$ (originally stated)	HK\$	HK\$ (restated)
Earnings per share			
– Basic	2.553	0.052	2.605
– Diluted	2.452	0.048	2.500



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. MERGER ACCOUNTING AND RESTATEMENTS (Continued)

The effects of acquisition of the Yield Express Group using merger accounting on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 are as follows:

	HK\$'000 (originally stated)	Adjustments on merger accounting HK\$'000 (Note)	HK\$'000 (restated)
Profit for the year	3,635,364	56,596	3,691,960
Other comprehensive expense			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences arising on translation of foreign operations of subsidiaries	(1,928,881)	(96,120)	(2,025,001)
Others	(141,160)	–	(141,160)
Other comprehensive expense for the year	(2,070,041)	(96,120)	(2,166,161)
Total comprehensive income for the year	1,565,323	(39,524)	1,525,799
Total comprehensive income for the year attributable to			
– Owners of the Company	1,535,904	(39,524)	1,496,380
– Non-controlling interests	29,419	–	29,419
	1,565,323	(39,524)	1,525,799

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. MERGER ACCOUNTING AND RESTATEMENTS (Continued)

The effects of acquisition of the Yield Express Group using merger accounting on the consolidated statements of financial position as at 1 January 2015 and 31 December 2015 are summarised below:

	1.1.2015 HK\$'000 (originally stated)	Adjustments on merger accounting HK\$'000 (Note)	1.1.2015 HK\$'000 (restated)	31.12.2015 HK\$'000 (originally stated)	Adjustments on merger accounting HK\$'000 (Note)	31.12.2015 HK\$'000 (restated)
ASSETS						
Interests in associates	2,636,196	1,792,136	4,428,332	2,708,144	1,727,873	4,436,017
Trade and other receivables	7,458,171	54,589	7,512,760	10,600,499	52,164	10,652,663
Bank balances and cash	27,087,611	195	27,087,806	26,784,036	26,730	26,810,766
Other assets	100,985,223	–	100,985,223	102,801,247	–	102,801,247
	138,167,201	1,846,920	140,014,121	142,893,926	1,806,767	144,700,693
LIABILITIES						
Trade and other payables	22,553,555	1,803,860	24,357,415	20,789,727	1,803,231	22,592,958
Other liabilities	62,181,455	–	62,181,455	66,814,485	–	66,814,485
	84,735,010	1,803,860	86,538,870	87,604,212	1,803,231	89,407,443
NET ASSETS	53,432,191	43,060	53,475,251	55,289,714	3,536	55,293,250
CAPITAL AND RESERVES						
Share capital and reserves	35,228,423	43,060	35,271,483	36,028,098	3,536	36,031,634
Non-controlling interests	18,203,768	–	18,023,768	19,261,616	–	19,261,616
TOTAL EQUITY	53,432,191	43,060	53,475,251	55,289,714	3,536	55,293,250

Note: These represent inclusion of the financial performance of the Yield Express Group for the year ended 31 December 2015 and its assets and liabilities as of 1 January 2015 and 31 December 2015 into the Group's consolidated financial statements.

The adjustments to the trade and other payables at 1 January 2015 and 31 December 2015 also include an amount of HK\$1,803,000,000, being the cash consideration payable by the Group for the acquisition of Yield Express.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

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.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2017.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group’s financial assets. The Group’s available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as fair value through other comprehensive income (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 15 “Revenue from Contracts with Customers” (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as an operating lease or a finance lease, and to account for those two types of leases differently.

As at 31 December 2016, the Group had non-cancellable operating lease commitments of HK\$170,130,000 as disclosed in Note 40(I). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the director complete a detailed review.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 “CO”).

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 at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary 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 fair value.

When 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 included 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 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 to fair value at subsequent reporting dates, 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 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for business combination involving entities under common control

Business combination involving entities under common control relates to acquisitions 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 party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss 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.

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 as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

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, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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.

The Group's policy for goodwill arising on the acquisition of an associate or a joint venture is described below.

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.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures 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, an investment in an associate or a joint venture is 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 associate or joint venture. When the Group’s share of losses of an associate or joint venture exceeds the Group’s interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate or joint venture), 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 the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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 of disposal) 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.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the Scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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 the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. 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.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for 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 treatment, water supply, waste incineration and sludge treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage treatment, water supply, waste incineration and sludge treatment plants are recognised and measured in accordance with the policy set out for "Provisions" below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts

When 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. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods (including water supplied under service concession arrangements) is recognised when the goods are delivered and titles have passed.

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.

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 or value-added tax payable in the PRC, is recognised at the time of usage.

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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. 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.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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 disposal. 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 subsequent accumulated impairment losses, if any.

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.

Depreciation is recognised so as to write off the cost of assets (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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets. Other than investment properties measured under fair value model, such cost are 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.

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 recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each 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 at 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 on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interest.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollar) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, 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).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), 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 joint arrangements 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 acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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 basis 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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of profit or loss because of income or expense that are taxable or deductible in other years and 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 bases 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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 each 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 taxes 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation 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.

Research expenditure

Expenditure on research activities 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 accumulated 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 treatment, water supply, waste incineration and sludge 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 33 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 acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment loss (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than goodwill 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. When 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets other than goodwill (Continued)

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 the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal 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 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 immediately in profit or loss.

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. Costs of inventories are determined on a 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.

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 and/or 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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Financial assets are classified into the following specified categories: 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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition 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 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. 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. Fair value is determined in the manner described in Note 23.

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, trade and other receivables, amounts due from subsidiaries, loan to a joint venture, pledged bank deposits, short-term bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 as available-for-sale or are 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 financial assets 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 changes in foreign exchange rates, if applicable are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. 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).

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 each 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 each reporting period. Financial assets are considered to be impaired when 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 available-for-sale equity investments, a significant or prolonged decline in the fair value of the security 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 or 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 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is recognised as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 (see the accounting policy below).

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.

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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of 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.

Financial liabilities

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of the Company's own equity instruments.

Convertible bonds containing liability and equity components

The component parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity (convertible bonds equity reserve), net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are 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 FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of obligation under the contract, as determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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.

On derecognition of a financial asset, 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 have expired. 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.

The amount recognised as a provision, 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, is 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. When 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 acquisition date. 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”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

For grant of share options that are conditional upon satisfying specified vesting conditions, the fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each 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 or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For grant of share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

Control over SI Environment

Note 48 describes that SIIC Environment Holdings Ltd. ("SI Environment") is a listed subsidiary of the Group although the Group has only 37.57% ownership interest and voting rights in SI Environment as at 31 December 2016. SI Environment is listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST").

The directors of the Company assessed whether or not the Group has control over SI Environment based on whether the Group had the practical ability to direct the relevant activities of SI Environment unilaterally by considering the Group's absolute size of holding in SI Environment, the relative size and dispersion of holdings of other shareholders and the practical right to appoint the majority members of the Board of directors of SI Environment. After their assessment, the directors of the Company concluded that the Group has the current ability to direct the relevant activities of SI Environment and affect the amount of the Group's return. Therefore, the Group has control over SI Environment.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the directors of the Company 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 determining 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 Land Appreciation Tax ("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 may 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 2016 at their fair value of approximately HK\$18,619 million (2015: HK\$15,363 million), details of which are disclosed in Note 15. 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 statement of profit or loss and the carrying amount of these properties included in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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\$9,813 million as at 31 December 2016 (2015: HK\$11,320 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. There were no significant changes in the traffic volume estimates in the current year.

Estimated impairment of goodwill

Determining whether goodwill is impaired required an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation required the Group to estimate the future cash flow expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/future impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill was approximately HK\$809 million (2015: HK\$573 million).

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 2016, the aggregate carrying amount of properties under development and properties held for sale was approximately HK\$43,840 million (2015: HK\$50,968 million). Details of the impairment test are set out in Note 19.

Recognition and allocation of construction costs 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 costs 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 expenditures 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Key sources of estimation uncertainty (Continued)

PRC LAT (Continued)

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 2016, the carrying amount of LAT provision (included in taxation payable) was approximately HK\$2,024 million (2015: HK\$1,796 million).

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 ageing 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 2016, the aggregate carrying amount of trade and other receivables was approximately HK\$9,243 million (2015: HK\$10,653 million, as restated).

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 when 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.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Management of the Group is responsible for determination of the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model on a regular basis, or when needs arise, and will report the significant results and findings to the board of directors of the Company. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 15 and 53(c) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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:

	2016 HK\$'000	2015 HK\$'000
Sales of properties	10,440,410	9,876,136
Sales of goods	4,079,319	3,889,035
Income from infrastructure facilities	5,274,746	4,348,739
Property rental and management income	2,153,213	1,407,587
Income from hotel operation	184,070	172,185
	22,131,758	19,693,682

7. NET INVESTMENT INCOME

	2016 HK\$'000	2015 HK\$'000 (restated)
Interest on bank deposits	373,568	492,043
Interest on available-for-sale investments	41,463	47,595
Interest on financial assets designated as at FVTPL	2,177	7,806
Other interest income	280,908	128,076
Total interest income	698,116	675,520
Change in fair value of financial assets classified as held for trading	5,707	(19,111)
Change in fair value of financial assets designated as at FVTPL	1,229	(12,870)
Dividend income from equity investments	9,057	169,812
Gain on disposal of available-for-sale investments	15,374	183,036
Rental income from property, plant and equipment	1,925	1,708
	731,408	998,095

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

	2016 HK\$'000	2015 HK\$'000 (restated)
Financial assets at FVTPL	14,972	(18,655)
Loans and receivables (including bank balances and cash)	654,476	620,119
Available-for-sale financial assets	60,035	394,923
	729,483	996,387
Investment income earned on non-financial assets	1,925	1,708
	731,408	998,095

Included above is income from listed investments of HK\$12,817,000 (2015: HK\$12,429,000) and from unlisted investments of HK\$62,190,000 (2015: HK\$363,839,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest on bank and other borrowings	1,949,227	2,139,513
Interest on convertible bonds (Note 35)	1,578	177,466
	1,950,805	2,316,979
Less: amounts capitalised in properties under development held for sale	(523,823)	(703,453)
	1,426,982	1,613,526

Borrowing costs capitalised during the year arose on the general borrowings pool and are calculated by applying capitalisation rates ranging from 3.91% to 6.15% (2015: 4.6% to 7.2%), per annum to expenditure on qualifying assets.

9. NET GAIN ON DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES/ DISPOSAL OF INTERESTS IN SUBSIDIARIES AND ASSOCIATES

	2016 HK\$'000	2015 HK\$'000
Fair value gain on revaluation of interest in an associate upon transform into a subsidiary (Note 38(I))	308,565	–
Gain on disposal of assets through disposal of interests in subsidiaries (Note 39(I))	2,395,035	–
Gain on disposal of interest in an associate	22,333	1,140
Gain on disposal of disposal group (Note 39(III))	–	452,367
Net gain on disposal of interests in subsidiaries (Note 39(II))	–	1,194,995
	2,725,933	1,648,502

10. INCOME TAX EXPENSE

	2016 HK\$'000	2015 HK\$'000
Current tax		
– Hong Kong	187,738	222,119
– PRC LAT	902,936	789,271
– PRC EIT (including PRC withholding tax of HK\$4,918,000 (2015: HK\$4,353,000))	1,872,731	1,225,661
	2,963,405	2,237,051
Under(over)provision in prior years		
– Hong Kong	539	(2,112)
– PRC LAT (Note i)	(6,234)	(15,481)
– PRC EIT (including overprovision of PRC withholding tax of HK\$13,970,000 (2015: HK\$6,046,000)) (Note ii)	(24,055)	(43,130)
	(29,750)	(60,723)
Deferred taxation for the year (Note 27)	(274,285)	(105,303)
	2,659,370	2,071,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSE (Continued)

Notes:

- (i) The Group recognised an overprovision of PRC LAT during the years ended 31 December 2015 and 2016, upon completion of tax clearance procedures by certain PRC subsidiaries with the respective tax authorities.
- (ii) The Group recognised an overprovision of PRC EIT during the year ended 31 December 2016 upon completion of tax clearance procedures by certain PRC subsidiaries with the respective tax authorities and an overprovision of PRC EIT during the year ended 31 December 2015 upon obtaining a tax clearance from the tax authority for disposal of a PRC subsidiary.

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

	2016 HK\$'000	2015 HK\$'000 (restated)
Profit before taxation	7,499,270	5,762,985
Tax at PRC statutory tax rate of 25%	1,874,818	1,440,746
Tax effect of share of results of joint ventures and associates	(71,794)	(64,608)
Tax effect of expenses not deductible for tax purpose	185,304	289,253
Tax effect of income not taxable for tax purpose	(19,675)	(91,068)
Overprovision of Hong Kong Profits Tax and PRC EIT in prior years	(23,516)	(45,242)
Tax effect of tax losses not recognised as deferred tax assets	317,356	281,513
Utilisation of tax losses previously not recognised as deferred tax assets	(43,854)	(40,309)
Effect of PRC subsidiaries subject to a lower tax rate	(16,734)	(7,726)
Effect of different tax rates of subsidiaries	(301,468)	(301,654)
Provision for PRC LAT for the year	907,630	782,593
Overprovision of PRC LAT in prior years	(6,234)	(15,481)
Tax effect of PRC LAT deductible for PRC EIT	(225,349)	(191,778)
Tax charge on dividend withholding tax	57,625	18,554
Others	25,261	16,232
Income tax expense for the year	2,659,370	2,071,025

Notes:

- (i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.
- (ii) The Group's subsidiaries in the PRC are subject to PRC EIT at a rate of 25% for both years, except for two (2015: one) PRC subsidiaries which are qualified as High New Technology Enterprises and enjoy a preferential tax rate of 15% for the current year. The preferential tax rate is applicable for three years until 2016 and 2018, respectively, and subject to approval for renewal.
- (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.

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11. PROFIT FOR THE YEAR

	2016 HK\$'000	2015 HK\$'000 (restated)
Profit for the year has been arrived at after charging:		
Employee benefits expense, including directors' emoluments:		
Basic salaries, allowances and bonus	1,200,174	1,093,672
Retirement benefits scheme contributions	117,923	109,818
	1,318,097	1,203,490
Amortisation of toll road operating rights (included in cost of sales)	809,009	776,386
Amortisation of other intangible assets (included in cost of sales)	206,108	129,981
Depreciation of property, plant and equipment	365,693	335,644
Release of prepaid lease payments	7,484	7,809
Total depreciation and amortisation	1,388,294	1,249,820
Auditors' remuneration	18,712	16,338
Cost of inventories recognised as an expense		
– properties	9,071,196	7,841,605
– inventories other than properties	2,363,751	2,390,146
Compensation expense in relation to settlement of a legal case	–	127,708
Impairment loss on bad and doubtful debts	55,156	17,497
Impairment loss on goodwill	38,235	–
Impairment loss on properties held for sale	224,631	31,911
Impairment loss on inventories, other than properties	4,475	1,340
Net foreign exchange loss (included in other income, gains and losses)	271,164	664,559
Net loss on disposal/written off of property, plant and equipment	762	–
Operating lease rentals in respect of land and buildings to		
– fellow subsidiaries	12,789	12,457
– others	119,595	124,251
Agreed payment in relation to withdrawal from a legal case	–	78,954
Provision for major overhauls (included in cost of sales)	5,739	242
Research expenditure	1,829	4,238
Share of PRC EIT of joint ventures (included in share of results of joint ventures)	58,467	51,246
Share of PRC EIT of associates (included in share of results of associates)	13,876	51,583
and after crediting other income, gains and losses as follows:		
Gain on land resumption (Note)	209,999	–
Increase in fair value of investment properties	305,450	96,402
Reversal of impairment loss on bad and doubtful debts	2,719	1,726
Reversal of impairment loss on properties held for sale upon subsequent sale	–	35,068
Reversal of impairment loss on other receivables	6,277	3,357
Net gain on disposal/written off of property, plant and equipment	–	40,202

Note: During the year ended 31 December 2016, a piece of land with a carrying amount of RMB30,780,000 (equivalent to HK\$35,958,000) held by the Group was resumed by the relevant government department of Shanghai of the PRC for a compensation of RMB210,510,000 (equivalent to HK\$245,957,000). The difference between the compensation received and the carrying amount is recognised as other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

The emoluments paid or payable to each of the eleven (2015: ten) former and existing directors of the Company were as follows:

	Wang Wei	Zhou Jun	Xu Bo	Xu Zhan	Lu Shen	Zhou Jie	Ni Jian Da	Woo Chia-Wei	Leung Pak To, Francis	Cheng Hoi Chuen, Vincent	Yuen Tin Fan, Francis	Lo Ka Shui	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	HK\$'000
				(Note i)	(Note ii)	(Note ii)	(Note iii)				(Note iv)	(Note v)	
Year ended 31 December 2016													
Executive directors:													
Directors' fee and committee remuneration	-	-	-	309	-	-	-	-	-	-	-	-	309
Basic salaries and allowances	3,258	2,055	1,886	-	1,940	1,531	-	-	-	-	-	-	10,670
Bonuses	2,100	1,247	840	-	945	1,292	-	-	-	-	-	-	6,424
Retirement benefits scheme contributions	74	59	54	-	59	43	-	-	-	-	-	-	289
Independent non-executive directors:													
Directors' fees and committee remuneration	-	-	-	-	-	-	-	445	440	449	203	179	1,716
Total directors' emoluments	5,432	3,361	2,780	309	2,944	2,866	-	445	440	449	203	179	19,408
Year ended 31 December 2015													
Executive directors:													
Directors' fee and committee remuneration	-	-	-	-	-	-	20	-	-	-	-	-	20
Basic salaries and allowances	3,258	1,886	1,886	-	1,940	2,364	-	-	-	-	-	-	11,334
Bonuses	2,100	840	840	-	945	1,995	-	-	-	-	-	-	6,720
Retirement benefits scheme contributions	74	59	54	-	59	63	-	-	-	-	-	-	309
Independent non-executive directors:													
Directors' fees and committee remuneration	-	-	-	-	-	-	-	440	440	449	-	360	1,689
Total directors' emoluments	5,432	2,785	2,780	-	2,944	4,422	20	440	440	449	-	360	20,072

Notes:

- (i) Mr. Xu Zhan was appointed as a director of the Company on 17 November 2016.
- (ii) Mr. Lu Shen and Mr. Zhou Jie resigned as a director of the Company on 24 January 2017 and 25 August 2016, respectively.
- (iii) Mr. Ni Jian Da resigned as a director of the Company on 2 February 2015.
- (iv) Mr. Yuen Tin Fan, Francis was appointed as a director of the Company on 15 July 2016.
- (v) Mr. Lo Ka Shui resigned as a director of the Company on 30 June 2016.
- (vi) Mr. Zhou Jun, Mr. Xu Bo, Mr. Lu Shen and Mr. Zhou Jie, 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.
- (vii) The executive director's emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.
- (viii) The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.
- (ix) Bonuses were determined with reference to the Group's operating results, individual performance and comparable market statistics.
- (x) In the two years ended 31 December 2016, 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.
- (xi) 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.

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13. DIVIDENDS

	2016 HK\$'000	2015 HK\$'000 (restated)
Dividends recognised as distribution during the year:		
2016 interim dividend of HK36 cents (2015: 2015 interim dividend of HK36 cents) per share	391,163	390,906
2016 special dividend of HK10 cents (2015: Nil) per share	108,657	–
2015 final dividend of HK45 cents (2015: 2014 final dividend of HK45 cents) per share	488,633	488,834
	988,453	879,740

The final dividend of HK46 cents per share in respect of the year ended 31 December 2016, amounting to approximately HK\$499.8 million in total, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2016 HK\$'000	2015 HK\$'000 (restated)
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	2,903,030	2,826,764
Effect of dilutive potential ordinary shares		
– interest on convertible bonds, net of tax	1,318	148,185
Earnings for the purpose of diluted earnings per share	2,904,348	2,974,949

	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,086,074,031	1,085,105,421
Effect of dilutive potential ordinary shares		
– convertible bonds	14,632,298	104,758,634
– share options of the Company	–	342,090
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,100,706,329	1,190,206,145

The computation of diluted earnings per share does not assume:

- (i) the exercise of certain of the Company's outstanding options as the exercise price of those options was higher than the average market price for the corresponding period; and
- (ii) the exercise of options issued by Shanghai Industrial Urban Development Group Limited ("SI Urban Development"), a listed subsidiary of the Group, because the exercise price of those options was higher than the average market price for the corresponding period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1 January 2015	15,979,200
Exchange adjustments	(713,006)
Increase in fair value recognised in profit or loss	96,402
At 31 December 2015	15,362,596
Exchange adjustments	(1,136,049)
Subsequent expenditures	418,525
Transfer from inventories (Note iii)	1,555,614
Additions through acquisition of a subsidiary (Note 38(II))	2,165,185
Increase in fair value recognised in profit or loss	305,450
Disposal (Note v)	(52,043)
At 31 December 2016	18,619,278

Notes:

	2016 HK\$'000	2015 HK\$'000
(i) Unrealised gain on property revaluation included in profit or loss for the year (included in other income, gains and losses)	308,686	96,402
(ii) The Group's investment properties are situated on land held under:		
	2016 HK\$'000	2015 HK\$'000
Land use rights in the PRC	18,619,278	15,362,596

(iii) During the year ended 31 December 2016, properties held for sale included in inventories with a carrying amount of HK\$1,555,614,000 (2015: Nil) were transferred to investment properties as the management had changed the use of the properties, evidenced by entering into various operating leases with tenants. The properties were fair-valued by DTZ Cushman & Wakefield Limited ("DTZ") at the date of transfer by reference to net rental income allowing for reversionary income potential.

(iv) The property rental income earned by the Group from its investment properties which are either held for rental income under operating leases and/or for capital appreciation purpose, amounted to HK\$1,332,064,000 (2015: HK\$1,003,749,000) with insignificant direct operating expenses.

(v) During the year ended 31 December 2016, the Group disposed of one investment property for cash proceeds of HK\$35,061,000 (2015: Nil).

(vi) The fair values of the Group's investment properties at 31 December 2016 and 31 December 2015 have been arrived at on the basis of valuations carried out on the respective dates by DTZ. DTZ is a member of the Institute of Valuers and a firm of independent qualified professional valuers not connected to the Group. 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 investment approach, where appropriate. In arriving at the valuation on the basis of investment approach, the fair value is determined by capitalising the net rental income derived from the existing tenancies with due provision or allowance for the reversionary potential of the properties. There has been no change from the valuation technique used in the prior year.

(vii) In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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For the year ended 31 December 2016

15. INVESTMENT PROPERTIES (Continued)

Notes: (Continued)

(viii) Following are the key inputs used in valuing the investment properties as at 31 December 2016 and 2015:

Category	Fair value hierarchy	Fair value		Valuation techniques	Significant unobservable inputs	Range or weighted average		Sensitivity
		2016 HK\$'000	2015 HK\$'000			2016	2015	
Office properties	Level 3	5,293,554	5,619,718	Investment approach	Reversionary yield (derived from market rent and the transaction price of comparable properties in the same location)	4.0%-11%	4.0%-9.0%	The higher the reversionary yield, the lower the fair value.
Car parking spaces	Level 3	167,485	150,161	Investment approach	Reversionary yield (derived from market rent and the transaction price of comparable properties in the same location)	5.5%	5.5%	The higher the reversionary yield, the lower the fair value.
		53,253	54,821	Direct comparison approach	Adjustment to transaction price (to reflect location, age and maintenance)	3.0%-14.0%	9.0%-14.0%	The larger the adjustment, the higher the fair value.
Residential service apartments	Level 3	33,944	22,689	Direct comparison approach	Discounts made to direct market comparables in the same location to reflect property market trend and property conditions	26%	14%	The higher the discount rate, the lower the fair value.
Industrial properties	Level 3	138,389	148,007	Investment Approach	Reversionary yield (derived from existing contracts rent and monthly market rent)	8.0%	6.0%	The higher the reversionary yield, the lower the fair value.
Commercial properties	Level 3	10,831,268	9,367,200	Investment approach	Reversionary yield (derived from market rent and the transaction price of comparable properties in the same location)	3.75%-5.5%	4.0%-5.5%	The higher the reversionary yield, the lower the fair value.
Residential Villa	Level 3	2,101,385	-	Direct comparison approach	Discounts made to direct market comparables in the same location to reflect property market trend and property conditions	5.0%-7.0%	N/A	The higher the discount rate, the lower the fair value
		18,619,278	15,362,596					

There were no transfers into or out of Level 3 during both years.

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16. 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
COST							
At 1 January 2015	1,253,484	2,299,969	864,670	184,514	2,284,238	174,485	7,061,360
Exchange adjustments	(67,052)	(59,819)	(15,925)	(8,450)	(14,483)	(4,473)	(170,202)
Acquisition of Fudan Water (Note 38(III))	–	3,212	17	672	16	–	3,917
Acquisition of other subsidiaries (Note 38(IV))	–	–	574	1,377	21,835	–	23,786
Additions	22,310	9,058	50,311	25,937	52,036	29,423	189,075
Transfers/reclassification (Note iii)	–	34,336	130	–	7,299	(27,871)	13,894
Disposals/written off	(170)	(110,854)	(26,017)	(28,368)	(80,108)	(87)	(245,604)
Disposal of subsidiaries (Note 39(II))	–	(55)	(174)	(695)	–	–	(924)
At 31 December 2015	1,208,572	2,175,847	873,586	174,987	2,270,833	171,477	6,875,302
Exchange adjustments	(90,200)	(133,402)	(27,302)	(11,924)	(36,709)	(9,178)	(308,715)
Acquisition of Longjiang Environmental Protection (Note 38(I))	–	21,270	13,052	7,736	6,284	29,683	78,025
Acquisition of Shanghai Qiyao (Note 38(II))	–	–	6	854	–	–	860
Acquisition of other subsidiaries (Note 38(IV))	–	2,928	5,864	3,552	755	863	13,962
Additions	9	25,369	106,110	25,058	322,780	116,720	596,046
Transfers/reclassification (Note iii)	–	81,859	58	–	23,836	(73,581)	32,172
Disposals/written off	(29,947)	(6,586)	(14,838)	(21,704)	(48,328)	–	(121,403)
Disposal of subsidiaries (Note 39(I))	–	–	(2,555)	(2,860)	–	–	(5,415)
At 31 December 2016	1,088,434	2,167,285	953,981	175,699	2,539,451	235,984	7,160,834
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 January 2015	166,973	435,330	428,114	115,447	1,253,613	–	2,399,477
Exchange adjustments	(13,877)	(12,505)	(8,467)	(5,359)	(8,790)	–	(48,998)
Provided for the year	75,156	75,910	50,639	19,955	113,984	–	335,644
Eliminated on disposals/written off	(103)	(8,582)	(23,442)	(25,777)	(64,216)	–	(122,120)
Eliminated on disposal of subsidiaries (Note 39(II))	–	(13)	(119)	(666)	–	–	(798)
At 31 December 2015	228,149	490,140	446,725	103,600	1,294,591	–	2,563,205
Exchange adjustments	(22,221)	(22,561)	(17,712)	(4,995)	(14,358)	–	(81,847)
Provided for the year	62,807	75,263	83,774	21,170	122,679	–	365,693
Eliminated on disposals/written off	(626)	(4,996)	(10,780)	(15,364)	(38,706)	–	(70,472)
Eliminated on disposal of subsidiaries (Note 39(I))	–	–	(2,359)	(2,301)	–	–	(4,660)
At 31 December 2016	268,109	537,846	499,648	102,110	1,364,206	–	2,771,919
CARRYING VALUES							
At 31 December 2016	820,325	1,629,439	454,333	73,589	1,175,245	235,984	4,388,915
At 31 December 2015	980,423	1,685,707	426,861	71,387	976,242	171,477	4,312,097

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16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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	5%-33 $\frac{1}{3}$ % or over the period of the lease in case of fixtures in rented premises, if shorter
Motor vehicles	10%-30%
Plant and machinery	5%-20%

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

	2016 HK\$'000	2015 HK\$'000
Land use rights in the PRC	1,775,849	1,978,611
Leases in Hong Kong	673,915	687,519
	2,449,764	2,666,130

- (iii) During the year ended 31 December 2016, the Group transferred properties held for sale of HK\$32,172,000 (2015: HK\$13,894,000) from inventories to property, plant and equipment under leasehold land and building category upon the change of use of the property from sale to owner occupied purpose.

17. PREPAID LEASE PAYMENTS

	2016 HK\$'000	2015 HK\$'000
The Group's prepaid lease payments comprise		
land use rights in the PRC	248,428	268,977
Analysed for reporting purposes as:		
Current portion	5,293	5,982
Non-current portion	243,135	262,995
	248,428	268,977

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18. TOLL ROAD OPERATING RIGHTS

	HK\$'000
COST	
At 1 January 2015	16,608,600
Exchange adjustments	(737,787)
At 31 December 2015	15,870,813
Exchange adjustments	(1,031,384)
At 31 December 2016	14,839,429
AMORTISATION	
At 1 January 2015	3,975,454
Exchange adjustments	(200,926)
Charged for the year	776,386
At 31 December 2015	4,550,914
Exchange adjustments	(333,428)
Charged for the year	809,009
At 31 December 2016	5,026,495
CARRYING VALUES	
At 31 December 2016	9,812,934
At 31 December 2015	11,319,899

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.

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For the year ended 31 December 2016

19. GOODWILL

	HK\$'000
COST	
At 1 January 2015	–
Exchange adjustments	(24,852)
Arising on acquisition of Fudan Water (Note 38(III))	559,472
Arising on acquisition of Qingdao Wing Fat (Note 38(IV))	38,235
At 31 December 2015	572,855
Exchange adjustments	(50,471)
Arising on acquisition of Longchuang (Note 38(IV))	261,367
Arising on acquisition of Rypax (Note 38(IV))	63,831
At 31 December 2016	847,582
IMPAIRMENT	
At 1 January 2015 and 31 December 2015	–
Impairment loss recognised	38,235
At 31 December 2016	38,235
CARRYING VALUES	
At 31 December 2016	809,347
At 31 December 2015	572,855

For the purposes of impairment testing, goodwill arising on business combinations as set out above was allocated, at acquisition, to three (2015: two) cash-generating units (“CGUs”), comprising one (2015: one) subsidiary in the infrastructure facilities segment, one (2015: Nil) subsidiary in the real estate segment and two (2015: one) subsidiaries in the consumer products segment, that are expected to benefit from that business combination as follows:

	2016 HK\$'000	2015 HK\$'000
Infrastructure facilities	499,878	534,620
Real estate	245,638	–
Consumer products	63,831	38,235
	809,347	572,855

During the year ended 31 December 2016, the management of the Group determined that an impairment loss of HK\$38,235,000 should be recognised in relation to goodwill in the consumer products segment (2015: no impairment is necessary).

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19. GOODWILL (Continued)

The recoverable amounts of the above CGUs have been determined based on a value in use calculation.

For infrastructure facilities segment, the value in use is determined by discounting the future cash flows to be generated from the continuing use of waste water treatment plant and waste incineration power generation plant over the service concession period ranging from 20 to 25 (2015: 20 to 25) years, using a discount rate of 11% (2015: 11%).

For real estate segment, the value in use calculation use cash flow projections based on financial budget approved by management covering a 5-year period with 11.50% discount rate. The cash flows beyond the 5-year period are extrapolated at zero growth rate. This growth rate is based on the global economic growth rate and is the directors' best estimate on the average growth rate of this specific industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

For consumer products segment, the value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period using a discount rate of 10% (2015: 10%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3% (2015: 3%). This growth rate is based on the global economic growth rate and is the directors' best estimate on the average growth rate of this specific industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of any of the CGUs to exceed the aggregate recoverable amount of the relevant CGUs.

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20. 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 2015	2,065,918	1,739	63,734	2,131,391
Exchange adjustments	(181,674)	(77)	(2,831)	(184,582)
Acquisition of Fudan Water (Note 38(I))	2,216,266	–	–	2,216,266
Additions	44,043	–	–	44,043
At 31 December 2015	4,144,553	1,662	60,903	4,207,118
Exchange adjustments	(314,091)	(108)	(3,958)	(318,157)
Acquisition of Longjiang Environmental Protection (Note 38(I))	2,840,832	–	–	2,840,832
Acquisition of other subsidiaries (Note 38(IV))	1,006,974	–	–	1,006,974
Additions	65,810	–	–	65,810
Disposal/written off	(11,630)	–	–	(11,630)
At 31 December 2016	7,732,448	1,554	56,945	7,790,947
AMORTISATION AND IMPAIRMENT				
At 1 January 2015	166,327	90	–	166,417
Exchange adjustments	(7,963)	(7)	–	(7,970)
Charged for the year	129,892	89	–	129,981
At 31 December 2015	288,256	172	–	288,428
Exchange adjustments	(27,531)	(15)	–	(27,546)
Charged for the year	206,024	84	–	206,108
Elimination on disposal/written off	(1,776)	–	–	(1,776)
At 31 December 2016	464,973	241	–	465,214
CARRYING VALUES				
At 31 December 2016	7,267,475	1,313	56,945	7,325,733
At 31 December 2015	3,856,297	1,490	60,903	3,918,690

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20. OTHER INTANGIBLE ASSETS (Continued)

Notes:

- (i) Operating concessions represent the rights to operate sewage treatment, water supply and waste incineration 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 33 years. Details of these operating concessions are set out in Note 24.
- (ii) Premium on prepaid lease payments represents the premium on acquisition of prepaid lease payments for land which is to be amortised over the period of the lease of the related prepaid lease payments on a straight-line basis.
- (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 life set out above has been allocated to the individual CGU, comprising one subsidiary in the real estate segment. For the year ended 31 December 2016, management of the Group has determined that there is no impairment (2015: 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.

21. INTERESTS IN JOINT VENTURES

	2016 HK\$'000	2015 HK\$'000
Cost of unlisted investments in joint ventures	2,536,755	2,361,408
Share of post-acquisition profits and other comprehensive income, net of dividends received/declared	930,842	973,388
	3,467,597	3,334,796

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For the year ended 31 December 2016

21. INTERESTS IN JOINT VENTURES (Continued)

Notes:

- (i) Summarised financial information in respect of each of the Group's material interests in joint ventures, namely 上海星河數碼投資有限公司 ("Shanghai Galaxy") and 中環保水務投資有限公司 (General Water of China Co., Ltd.) ("General Water"), is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

	Shanghai Galaxy		General Water	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Current assets	1,901,074	1,472,820	2,124,514	2,267,422
Non-current assets*	6,472,407	6,177,010	6,696,399	6,949,614
Current liabilities	(1,968,419)	(1,750,943)	(2,569,142)	(2,742,555)
Non-current liabilities	(4,165,096)	(4,040,578)	(1,586,547)	(1,701,649)
Non-controlling interests	(159,856)	(117,605)	(1,166,868)	(1,196,774)
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	503,546	222,853	1,723,875	1,084,228
Current financial liabilities (excluding trade and other payables and provisions)	(1,193,837)	(406,824)	(876,507)	(1,091,474)
Non-current financial liabilities (excluding trade and other payables and provisions)	(3,712,841)	(3,791,497)	(1,442,503)	(1,482,653)

* The balances of Shanghai Galaxy mainly comprise property, plant and equipment and the balances of General Water mainly comprise operating concessions.

	Shanghai Galaxy		General Water	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	555,707	496,791	2,154,942	1,788,550
Profit for the year	123,106	122,112	182,482	106,416
Other comprehensive expense for the year	(134,168)	(79,707)	(241,342)	(105,762)
Total comprehensive (expense) income for the year	(11,062)	42,405	(58,860)	654
Dividends received from joint ventures during the year	-	-	(8,479)	-
The above profit for the year include the following:				
Depreciation and amortisation	(229,729)	(154,209)	(326,053)	(327,070)
Interest income	3,050	6,397	21,191	27,832
Interest expense	(185,803)	(210,578)	(116,507)	(152,347)
Income tax expense	(24)	(7,026)	(129,627)	(85,373)

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For the year ended 31 December 2016

21. INTERESTS IN JOINT VENTURES (Continued)

Notes: (Continued)

(i) (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	Shanghai Galaxy		General Water	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Equity attributable to owners of the joint venture	2,080,110	1,740,704	3,498,356	3,576,058
Proportion of the Group's ownership interest	50%	50%	45%	45%
Carrying amount of the Group's interest in the joint venture	1,040,055	870,352	1,574,260	1,609,226

Aggregate information of joint ventures that are not individually material:

	2016 HK\$'000	2015 HK\$'000
The Group's share of profit	70,447	69,265
The Group's share of other comprehensive expense	(72,526)	(51,892)
The Group's share of total comprehensive income	(2,049)	17,373
Aggregate carrying amount of the Group's interests in these joint ventures	853,282	855,218

(ii) The Group has discontinued recognition of its share of (profit) loss of a joint venture. The amounts of unrecognised share of the joint venture, both for the year and cumulatively, are as follows:

	2016 HK\$'000	2015 HK\$'000
Unrecognised share of profit of a joint venture for the year	(125)	(237)
Accumulated unrecognised share of losses of a joint venture	5,352	5,477

(iii) Details of the Group's principal joint ventures at the end of the reporting period are set out in Note 49.

22. INTERESTS IN ASSOCIATES

	2016 HK\$'000	2015 HK\$'000 (restated)
Cost of unlisted investments in associates	3,797,226	4,564,924
Share of post-acquisition profits and other comprehensive expense, net of dividends received/declared	(417,562)	(87,907)
	3,379,664	4,477,017
Less: Impairment loss recognised	(969)	(41,000)
	3,378,695	4,436,017

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For the year ended 31 December 2016

22. INTERESTS IN ASSOCIATES (Continued)

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 2015, 31 December 2015 and 31 December 2016	3,370
IMPAIRMENT	
At 1 January 2015, 31 December 2015 and 31 December 2016	–
CARRYING VALUES	
At 1 January 2015, 31 December 2015 and 31 December 2016	3,370

- (ii) Summarised financial information in respect of the Group's material associates namely 上海莘天置業有限公司 ("Shanghai Shentian"), Hangzhou Bay Bridge and Longjiang Environmental Protection (as defined in Note 38(l)) is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

All associates are accounted for using the equity method in these consolidated financial statements.

	Shanghai Shentian		Hangzhou Bay Bridge		Longjiang Environmental Protection	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000 (restated)	2016 HK\$'000	2015 HK\$'000
Current assets*	4,086,877	4,370,919	180,177	241,305	N/A	1,645,034
Non-current assets**	1,711	1,830	12,648,064	14,111,812	N/A	5,375,712
Current liabilities	(409,491)	(437,950)	(1,995,923)	(1,139,811)	N/A	(3,132,018)
Non-current liabilities	(496,874)	(531,407)	(3,763,224)	(5,719,842)	N/A	(1,779,840)
Non-controlling interests	–	–	–	–	N/A	46,208

* The balances of Shanghai Shentian mainly comprise land costs relating to properties under development held for sale. The development plan was approved by the respective government departments in the PRC and the construction commenced in year 2014 and is expected to complete from the year 2017 onwards.

** The balances of Hangzhou Bay Bridge and Longjiang Environmental Protection mainly comprise operating concessions.

	Shanghai Shentian		Hangzhou Bay Bridge		Longjiang Environmental Protection	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000 (restated)	2016 HK\$'000 (Note)	2015 HK\$'000 (Note)
Revenue	–	–	1,610,809	1,563,049	1,225,475	1,354,667
Profit for the year	–	–	350,549	247,420	60,716	116,234
Other comprehensive expense for the year	(221,169)	(158,220)	(489,019)	(377,805)	(67,645)	(121,194)
Total comprehensive (expense) income for the year	(221,169)	(158,220)	(138,470)	(130,385)	6,929	(4,960)
Dividends received from the associate during the year	–	–	(65,924)	–	–	–

Note: The amounts represented the results for the year ended 31 December 2015 and the ten months ended 31 October 2016 before Longjiang Environmental Protection became a subsidiary of the Group.

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22. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(ii) (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	Shanghai Shentian		Hangzhou Bay Bridge		Longjiang Environmental Protection	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000 (restated)	2016 HK\$'000	2015 HK\$'000
Equity attributable to owners of the associate	3,182,223	3,403,392	7,069,094	7,493,464	N/A	2,155,096
Proportion of the Group's ownership interest	35%	35%	23.06%	23.06%	N/A	42%
Carrying amount of the Group's interest in the associate	1,113,778	1,191,187	1,630,020	1,727,873	N/A	907,595

Aggregate information of associates that are not individually material:

	2016 HK\$'000	2015 HK\$'000
The Group's share of loss	(33,370)	(25,775)
The Group's share of other comprehensive expense	(42,847)	(48,507)
The Group's share of total comprehensive expense	(76,217)	(74,282)
Aggregate carrying amount of the Group's interests in these associates	634,897	609,362

(iii) Details of the Group's principal associates at the end of the reporting period are set out in Note 50.

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23. INVESTMENTS

	2016 HK\$'000	2015 HK\$'000
Available-for-sale investments		
Listed equity securities in		
– Hong Kong	232,046	253,812
– elsewhere	178,254	190,198
Unlisted equity securities in		
– Hong Kong (Note ii)	5	5
– PRC (Note ii)	728,985	717,750
– elsewhere (Note ii)	30,794	30,794
Unlisted trust funds (Notes ii and iii)	31,264	46,573
	1,201,348	1,239,132
Investments held-for-trading		
Listed equity securities in		
– Hong Kong	173,513	169,976
– elsewhere	12,059	4,532
	185,572	174,508
Financial assets designated as at FVTPL		
– Structured deposits (Note iv)	–	223,106
– Corporate bonds	10,131	–
	10,131	223,106
	1,397,051	1,636,746
Fair values of listed equity investments	595,872	618,518
Analysed for reporting purposes as:		
Current portion	226,967	444,187
Non-current portion	1,170,084	1,192,559
	1,397,051	1,636,746

Notes:

- (i) At the end of the reporting period, except for those unlisted equity investments and unlisted trust funds, of which the fair values 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 and trust funds 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.
- (iv) As at 31 December 2015, structured deposits represented exchange rate linked notes and equity linked notes, which carried interest at variable rates, ranging from 0% to 8.0% and 0% to 9.15% per annum, respectively. Notional amounts of these structured deposits amounted to approximately HK\$73 million and HK\$150 million, respectively. These structured deposits matured during the current year. Interest rates of these structured deposits vary depending on the movement of foreign exchange rate of Renminbi against United States dollar, the closing prices of the underlying listed securities at the respective maturity dates and those features constitute non-closely related embedded derivatives. Their fair values at the end of the reporting period are determined based quotes provided by the counterparty financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. SERVICE CONCESSION ARRANGEMENTS

In addition to the Group's toll road operating rights as disclosed in Note 18, the Group also has the following service concession arrangements.

(I) Nature of arrangements

The Group engages in the businesses of sewage treatment, water supply, waste incineration and sludge treatment 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 treatment, water supply, waste incineration and sludge 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 treatment, water supply, waste incineration and sludge treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 33 years (the "service concession periods"), and the Group will be paid by the users 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 treatment, water supply, waste incineration and sludge treatment plants, however, the relevant governmental authorities as grantors control and regulate the scope of services, and retain the beneficial entitlement to any residual interest in the sewage treatment, water supply, waste incineration and sludge 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 treatment, water supply, waste incineration and sludge treatment plants to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

At 31 December 2016, the Group had eighty-four (2015: forty-two) service concession arrangements on sewage treatment, seven (2015: four) service concession arrangements on water treatment and distribution, two (2015: one) service concession arrangements on waste incineration and eight (2015: one) service concession arrangements on sludge treatment. A summary of the major terms of the principal service concession arrangements is set out below:

Name of subsidiary as operator	Project name	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity tons/day	Service concession period
哈爾濱文太升龍江環保水務有限責任公司	Sewage treatment project in Wenchang, Harbin	Harbin, Heilongjiang Province, the PRC	哈爾濱市水務局	BOT (Financial assets)	650,000	29 years from 2012 to 2040
武漢漢西污水處理有限公司	Sewage treatment project in Hanxi, Wuhan	Wuhan, Hubei Province, the PRC	武漢市人民政府	BOT (Financial assets)	600,000	30 years from 2004 to 2034
牡丹江龍江環保供水有限公司	Water supply project in Mudanjiang	Mudanjiang, Heilongjiang Province, the PRC	牡丹江市人民政府	TOT (Intangible assets)	360,000	30 years from 2011 to 2040
佳木斯龍江環保供水有限公司	Water supply project in Jiamusi	Jiamusi, Heilongjiang Province, the PRC	佳木斯市人民政府	TOT (Intangible assets)	360,000	30 years from 2012 to 2041
龍江環保集團股份有限公司	Sewage treatment project in Taipin, Harbin	Harbin, Heilongjiang Province, the PRC	哈爾濱市水務局	BOT (Financial assets)	325,000	25 years from 2005 to 2029
龍江環保集團股份有限公司	Sewage treatment project in Wenchang, Harbin	Harbin, Heilongjiang Province, the PRC	哈爾濱市水務局	TOT (Financial assets)	325,000	30 years from 2011 to 2040

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For the year ended 31 December 2016

24. SERVICE CONCESSION ARRANGEMENTS (Continued)

(I) Nature of arrangements (Continued)

Name of subsidiary as operator	Project name	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity tons/day	Service concession period
益陽市自來水有限公司	Water supply project in Yiyang	Yiyang, Hunan Province, the PRC	益陽市住房和城鄉建設局	BOT (Intangible assets)	320,000	28 years from 2016 to 2044
濰坊市自來水有限公司	Water supply project in Weifang	Weifang, Shandong Province, the PRC	濰坊市人民政府	BOT (Intangible assets)	320,000	25 years from 2007 to 2032
惠州市南方水務有限公司	Phase I, phase II and phase III of water treatment project in Meihu, Huizhou	Huizhou, Guangdong Province, the PRC	惠州市環保局	BOT and TOT (Financial assets)	300,000	25 years from 2005 to 2030
武漢黃陂凱迪水務處理有限公司	Water supply project in Huang-Pi, Wuhan	Wuhan, Hubei Province, the PRC	武漢市黃陂區水務局	BOT (Intangible assets)	220,000	30 years from 2008 to 2038

As explained in the accounting policy for “Service concession arrangements” set out in Note 4, 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 20, and the financial asset component is as follows:

	2016 HK\$'000	2015 HK\$'000
Receivables under service concession arrangements	12,734,310	6,036,880
Less: current portion classified as current assets	(244,374)	(166,658)
Non-current portion	12,489,936	5,870,222

During the year, the Group recognised interest income of HK\$461,666,000 (2015: HK\$414,719,000) and construction income of HK\$1,202,701,000 (2015: HK\$644,604,000) as revenue under the line item “income from infrastructure facilities” from service concession arrangements. The effective interest rate applied ranges from 4.90% to 7.83% (2015: 5.40% to 13.00%) per annum and the overall gross profit margin for construction contracts is at 11.5% (2015: 12.5%).

(II) Provision for major overhauls

Pursuant to the service concession agreements, the Group has contractual obligations to maintain the sewage treatment, water supply, waste incineration and sludge 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 treatment, water supply, waste incineration and sludge 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.

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For the year ended 31 December 2016

24. SERVICE CONCESSION ARRANGEMENTS (Continued)

(II) Provision for major overhauls (Continued)

The movements in the provision for the major overhauls of sewage treatment, water supply, waste incineration and sludge treatment plants during the current and prior years are as follows:

	HK\$'000
At 1 January 2015	78,934
Exchange adjustments	(2,196)
Additions	242
Utilisation	(4,686)
At 31 December 2015	72,294
Exchange adjustments	(4,245)
Additions through acquisition of Longjiang Environmental Protection (Note 38(I))	12,523
Additions	5,739
Utilisation	(4,234)
At 31 December 2016	82,077

25. DEPOSITS PAID ON ACQUISITION OF A SUBSIDIARY/PROPERTY, PLANT AND EQUIPMENT

At 31 December 2015, an amount of HK\$342,388,000 represented a deposit paid by the Group on the acquisition 90% equity interest in Yiyang City Tap Water Co., Ltd.. The acquisition was completed in February 2016 (Note 38).

The remaining amounts represent 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 41.

26. OTHER NON-CURRENT RECEIVABLES

The amount represents loans advanced to a subsidiary of a former tenant of one of the Group's investment properties (the "Borrower") through an entrusted loan agreement (the "EL Agreement") administrated by a trust company.

Pursuant to the EL Agreement, the Borrower was granted a loan facility of RMB182,600,000 which could be drawn down in any amounts and at any time after the date of the EL Agreement on 23 December 2014. The maturity date of each loan is five years from the date of utilisation of the facility. The Group has the right to request the Borrower to repay the loans and accrued interests in full or by instalments in twelve months before the maturity. The loans carry fixed interest rate at 10% per annum for the first and second year, 15% per annum for the third and fourth year and 18% per annum for the fifth year. The interests are payable in arrear semi-annually. The loans are secured by the registered share capital of the immediate and intermediate holding companies of the Borrower and these holding companies are principally engaged in commercial properties management.

During the year ended 31 December 2016, a total amount of RMB19,414,000 (equivalent to HK\$22,679,000) (2015: RMB163,186,000 (equivalent to HK\$194,872,000)) was drawn down by the Borrower, and the Borrower early repaid an amount of RMB130,000,000 (equivalent to HK\$151,869,000) and the remaining balance of RMB52,600,000 (equivalent to HK\$58,732,000) is repayable in 2020.

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27. 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	Revaluation of investment properties	LAT on revaluation of investment properties	Tax losses	Fair value adjustments on business combinations	Undistributed earnings of PRC entities	Fair value adjustments under development/ properties held for sale	LAT on properties under development/ properties held for sale	Convertible bonds	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	HK\$'000
At 1 January 2015	186,801	317,111	2,060,707	1,302,928	(7,639)	2,447,992	336,395	264,683	117,540	44,992	16,865	(452,912)	6,634,453
Exchange adjustments	(1,330)	(13,712)	(79,122)	(67,083)	423	(123,197)	(3,264)	(11,335)	(4,949)	-	13,299	2,572	(287,688)
Additions through acquisition of													
Fudan Water (Note 38(III))	(3,487)	-	-	-	-	618,891	-	-	-	-	-	-	615,404
(Credited) charged to profit or loss	(3,330)	(15,477)	39,311	1,844	(3,103)	(92,250)	20,247	(13,210)	(8,522)	(43,783)	(33,100)	46,070	(106,303)
Charged to other comprehensive income	-	-	-	-	-	-	-	-	-	-	29,506	-	29,506
At 31 December 2015	177,654	287,922	2,020,896	1,237,689	(10,319)	2,851,436	353,388	240,138	104,069	1,209	26,560	(404,270)	6,886,372
Exchange adjustments	(1,607)	(17,444)	(194,815)	(61,235)	141	(216,116)	(4,568)	(15,025)	(6,053)	-	39,731	1,412	(475,569)
Additions through acquisition of													
- Longjiang Environment Protection (Note 38(I))	-	-	-	-	-	679,758	-	-	-	-	-	(999)	678,759
- Shanghai Qiyao (Note 38(II))	-	-	1,385,406	-	-	-	-	-	-	-	-	-	1,385,406
- Other subsidiaries (Note 38(IV))	(4,490)	-	-	-	467	175,198	-	-	-	-	8,964	(11,654)	168,485
Charged (credited) to profit or loss	13,642	(28,639)	50,783	20,756	(9,166)	(236,128)	(66,677)	(13,127)	(16,062)	(1,058)	(24,431)	35,822	(274,285)
Charged to other comprehensive income	-	-	-	-	-	-	-	-	-	-	9,823	-	9,823
At 31 December 2016	186,199	241,839	3,262,270	1,197,210	(18,877)	3,254,148	282,153	211,986	81,954	151	60,647	(379,689)	8,378,991

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:

	2016 HK\$'000	2015 HK\$'000
Deferred tax liabilities	8,837,612	7,303,466
Deferred tax assets	(458,621)	(417,094)
	8,378,991	6,886,372

- (ii) At the end of the reporting period, the Group had unused tax losses of approximately HK\$6,071.7 million (2015: HK\$4,942.9 million) available for offset against future assessable profits. A deferred tax asset amounting to approximately HK\$18.9 million (2015: HK\$10.3 million) in respect of tax losses amounting to approximately HK\$75.5 million (2015: HK\$41.3 million) has been recognised. No deferred tax asset was recognised in respect of the remaining tax losses of approximately HK\$5,996.2 million (2015: HK\$4,901.6 million) due to the unpredictability of future profit streams. The Hong Kong tax losses of approximately HK\$15.3 million (2015: HK\$13.8 million) may be carried forward indefinitely and the remaining PRC tax losses of approximately HK\$6,056.4 million (2015: HK\$4,929.1 million) will expire in various dates in the next five years.
- (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\$1,417 million (2015: HK\$661 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.

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28. INVENTORIES

	2016 HK\$'000	2015 HK\$'000
Properties under development held for sale	30,190,506	38,607,190
Properties held for sale	13,649,553	12,361,106
Raw materials	1,667,720	1,656,259
Work in progress	32,537	37,955
Finished goods	337,252	160,712
Merchandise held for resale	21,854	20,869
	45,899,422	52,844,091

At 31 December 2016, included in the above balance were properties under development held for sale of HK\$18,519,645,000 (2015: HK\$25,920,066,000) which are not expected to be realised within one year.

Included in the properties held-for-sale as at 31 December 2016 is an amount of HK\$7,548,550,000 (2015: HK\$5,823,239,000) which represents properties located in first-tier cities in the PRC, such as Beijing and Shanghai, and an amount of HK\$6,101,003,000 (2015: HK\$6,537,867,000) which represents properties located in other cities in the PRC, of which an amount of HK\$4,180,006,000 (2015: HK\$5,819,839,000) had no pre-sale during the year.

The net realisable values of properties held-for-sale of HK\$2,598,888,000 which are not located in first-tier cities in the PRC and have no pre-sale agreements entered into by the Group as at 31 December 2016 have been arrived at on the basis of a valuation carried out on the respective dates by DTZ. DTZ has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations. The Group's properties held-for-sale were valued individually, on market value basis, which conforms to HKIS Valuation Standards 2012 Edition published by Hong Kong Institute of Surveyors. The net realisable value of the Group's properties held-for-sale was arrived at by reference to comparable sales transactions available in the relevant market with adjustments according to nature of each property held-for-sale, its location and the prevailing selling price.

During the year ended 31 December 2016, in view of continuous slow turnover of certain properties held for sale located in cities other than first-tier cities in the PRC, the directors of the Company, after considering the results of valuation performed by DTZ, had determined that the net realisable value of these properties is less than their carrying amount and an impairment loss of HK\$221,104,000 (2015: HK\$31,911,000) has been recognised in the profit or loss.

29. TRADE AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000 (restated)
Trade receivables	1,774,114	1,107,214
Less: allowance for doubtful debts	(86,254)	(43,395)
	1,687,860	1,063,819
Other receivables (Note vi)	7,554,715	9,588,844
Total trade and other receivables	9,242,575	10,652,663

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For the year ended 31 December 2016

29. 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, which approximates the respective revenue recognition dates.

	2016 HK\$'000	2015 HK\$'000
Within 30 days	511,349	319,988
Within 31-60 days	255,866	182,919
Within 61-90 days	324,616	139,289
Within 91-180 days	170,387	180,503
Within 181-365 days	158,327	170,670
Over 365 days	267,315	70,450
	1,687,860	1,063,819

- (iii) Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK\$482,940,000 (2015: HK\$348,664,000) 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

	2016 HK\$'000	2015 HK\$'000
31-60 days	90,118	98,402
61-90 days	39,168	22,429
91-180 days	73,815	54,191
181-365 days	93,081	139,408
Over 365 days	186,758	34,234
Total	482,940	348,664

- (v) Movements in the allowance for doubtful debts

	2016 HK\$'000	2015 HK\$'000
Balance at beginning of the year	43,395	27,959
Impairment losses recognised on receivables	55,156	17,497
Amounts written off as uncollectible	(9,578)	(335)
Amounts recovered during the year	(2,719)	(1,726)
Balance at end of the year	86,254	43,395

- (vi) At 31 December 2016, included in other receivables were (a) consideration receivable of HK\$348,838,000 as detailed in Note 39 (2015: HK\$2,627,284,000), (b) amounts of HK\$3,572,465,000 (2015: HK\$3,824,118,000) due from certain associates of which an amount of HK\$3,360,317,000 (2015: HK\$3,597,225,000) carries fixed interest at prevailing market interest rates and (c) a deposit paid on acquisition of a piece of land for property development for sale of nil amount (2015: HK\$918,319,000).

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For the year ended 31 December 2016

30. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2016 HK\$'000	2015 HK\$'000
Contracts in progress in relation to construction of sewage treatment, water supply, waste incineration and sludge treatment plants at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	1,774,150	490,102
Less: progress billings	(1,087,950)	(432,965)
	686,200	57,137
Analysed for reporting purposes as:		
Amounts due from contract customers	710,079	82,135
Amounts due to contract customers	(23,879)	(24,998)
	686,200	57,137

As at 31 December 2016, retentions held by customers for contract works amounted to HK\$5,498,000 (2015: HK\$4,917,000). Advances received from customers for contract work amounted to HK\$166,695,000 (2015: HK\$126,375,000).

31. PLEDGED BANK DEPOSITS/SHORT-TERM BANK DEPOSITS/BANK BALANCES AND CASH

- (i) Bank deposits with maturity of less than one year of HK\$430,853,000 (2015: HK\$362,252,000) 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 0.3% to 3.1% (2015: 0.35% to 3.25%) 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 market rates, ranging from of 1.10% to 1.55% (2015: 0.70% to 5.00%) per annum.
- (iii) Bank balances (including bank deposits with maturity of less than three months) carry interest at market rates, ranging from 0.00% to 5.90% (2015: 0.00% to 6.60%) 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:

	2016 HK\$'000	2015 HK\$'000
Renminbi	85,196	1,628,404
United States dollar	868,040	1,246,896
Hong Kong dollar	353,291	1,744,884

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32. TRADE AND OTHER PAYABLES

	2016 HK\$'000	2015 HK\$'000 (restated)
Trade payables (Note i)	4,085,857	3,708,254
Consideration payables for acquisition of subsidiaries	398,413	4,796,929
Deposits received for identifying investment projects (Note ii)	–	1,633,628
Other payables (Note iii)	10,181,613	12,454,147
Total trade and other payables	14,665,883	22,592,958

Notes:

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

	2016 HK\$'000	2015 HK\$'000
Within 30 days	869,497	743,706
Within 31-60 days	391,452	557,495
Within 61-90 days	256,090	755,497
Within 91-180 days	603,626	562,363
Within 181-365 days	868,971	683,017
Over 365 days	1,096,221	406,176
	4,085,857	3,708,254

- (ii) On 6 May 2015, (i) SUD (as defined in Note 48), (ii) Urban Development Green Carbon (Tianjin) Equity Investment Fund (Limited Partnership) ("Green Carbon Fund"), in which SUD is a limited partner, (iii) an existing partner of Green Carbon Fund (the "Departing Partner"), and (iv) two other independent third parties (the "New Partners"), entered into an investment agreement. Pursuant to which, the New Partners committed to invest RMB1,668,000,000 (equivalent to HK\$1,991,880,000) to Green Carbon Fund. During the year ended 31 December 2015, the New Partners invested RMB1,368,000,000 (equivalent to HK\$1,633,628,000) into the Green Carbon Fund and the same amount was then advanced by Green Carbon Fund to SUD for the purpose of identifying investment opportunities on new projects.

As at 31 December 2015, in view of the fact that no potential new projects had been identified by SUD, SUD negotiated with the New Partners to dispose of its entire partnership interest in Green Carbon Fund to the New Partners. During the year ended 31 December 2016, the entire deposit received was utilised as the consideration for the Group's disposal of its assets through disposal of interest in a subsidiary. Details of this disposal are set out in Note 39(I).

- (iii) Included in other payables as at 31 December 2016 were (a) amounts of HK\$352,715,000 (2015: HK\$462,133,000) due to Stated-owned Assets Supervision and Administration Commission of Shanghai Xuhui District (the "Xuhui SASAC") and entities controlled by the Xuhui SASAC (see Note 45(I)(e)), (b) amounts of HK\$1,086,000 (2015: HK\$32,337,000) due to certain fellow subsidiaries, which are unsecured and have no fixed terms of repayment, (c) nil amount (2015: HK\$1,352,351,000) was due to a non-controlling shareholder of a subsidiary, which was unsecured, interest-free and repayable on demand, and (d) accrued expenditure on properties under development of HK\$2,861,832,000 (2015: HK\$4,607,146,000).

33. 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\$58 million (2015: HK\$65 million) is expected to be recognised as revenue after more than one year.

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34. BANK AND OTHER BORROWINGS

	2016 HK\$'000	2015 HK\$'000
Bank loans	35,961,907	37,804,301
Other loans	10,187,580	7,130,681
	46,149,487	44,934,982
Analysed as:		
Secured	14,847,829	18,493,828
Unsecured	31,301,658	26,441,154
	46,149,487	44,934,982
Carrying amount repayable:		
Within one year	8,553,493	10,977,611
More than one year but not more than two years	8,381,350	8,243,858
More than two years but not more than five years	20,347,030	20,278,197
Over five years	8,867,614	5,435,316
	46,149,487	44,934,982
Less: amounts due within one year shown under current liabilities	(8,553,493)	(10,977,611)
	37,595,994	33,957,371

Notes:

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

	2016 HK\$'000	2015 HK\$'000
Fixed-rate borrowings:		
Within one year	1,931,704	5,055,729
More than one year but not more than two years	154,464	226,894
More than two years but not more than three years	1,832,931	1,948,890
More than three years but not more than four years	14,800	11,942
More than four years but not more than five years	539,002	11,942
More than five years	35,730	2,176,214
	4,508,631	9,431,611

(ii) The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2016	2015
Effective interest rate:		
Fixed-rate borrowings	0.80% to 9.00%	1.20% to 9.00%
Variable-rate borrowings	0.80% to 7.80%	1.52% to 7.80%

(iii) Included in the Group's bank borrowings is an amount of HK\$6,000 million (2015: HK\$6,596 million) drawn under syndicated loan facilities of HK\$6,000 million (2015: HK\$7,000 million) obtained by the Group. Transaction costs of approximately HK\$24 million (2015: HK\$102 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 2016, the carrying value of such bank borrowings was approximately HK\$5,956 million (2015: HK\$6,529 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

- (iv) Included in other loans are advanced bonds (the "Bonds") with an aggregate amount of HK\$8,889,098,000 (2015: HK\$6,294,232,000) issued by non-wholly owned subsidiaries of the Group in the PRC in 2012, 2015 and 2016, which are listed on Shanghai Stock Exchange. The Bonds are unsecured and have maturities of three to seven years falling due between 2018 and 2022. The Bonds carry interest at fixed rates of 3.41% to 6.50% per annum or a variable rate of Shanghai Interbank Offered Rate plus 1.55% per annum (2015: a fixed rate of 4.47% to 6.50% per annum or a variable rate of Shanghai Interbank Offered Rate plus 1.55% per annum). Transaction costs with an aggregate amount of HK\$68,477,000 (2015: HK\$56,146,000) are directly deducted from the carrying amount of the Bonds on initial recognition and the range of effective interest rates applied to the Bonds is 4.12% to 7.19% per annum (2015: 4.71% to 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.

35. CONVERTIBLE BONDS

On 18 February 2013 (the "Issue Date"), a wholly owned subsidiary of the Company, Tong Jie Limited (the "Issuer"), issued zero coupon convertible bonds with a principal amount of HK\$3,900,000,000 ("CB 2018"). Unless early redeemed, CB 2018 will be redeemed at 105.11% of the principal amount on 18 February 2018 (the "Maturity Date"). CB 2018 are guaranteed by the Company and listed on the Stock Exchange.

The principal terms of CB 2018 are as follows:

The holders of CB 2018 have the right to convert all or any portion of CB 2018 into shares of the Company at the conversion price of HK\$36.34 per share (subject to anti-dilutive adjustments). The conversion right can be exercised at any time on or after 40 days from the Issue Date up to, and including, the close of business on the business day seven days prior to the Maturity Date.

The holders of CB 2018 have the option to require the Issuer to redeem all or some only of CB 2018 on 18 February 2016 at a pre-determined redemption amount ("Holders' Redemption Option"). As a result, CB 2018 was classified under current liabilities as at 31 December 2015.

At any time after 18 February 2016 to the day prior to the Maturity Date, the Issuer may redeem CB 2018 in whole but not in part at a pre-determined redemption amount if the closing price of the shares of the Company for any 20 trading days out of the 30 consecutive trading days prior to the date upon which notice of such redemption is given is at least 130 per cent of the applicable early redemption amount divided by the conversion ratio ("Issuer's Redemption Option"). Also, if at any time the aggregate original principal amount of CB 2018 is less than 10 per cent of the aggregate original principal amount, the Issuer shall have the option to redeem such outstanding CB 2018 in whole but not in part at their pre-determined redemption amount as at the date fixed for redemption. As a result, the CB 2018 was also classified under current liabilities as at 31 December 2016.

CB 2018 contain a liability component, an equity component, Holders' Redemption Option and Issuer's Redemption Option. The equity component is presented in the equity under the heading "Convertible bonds equity reserve". The effective interest rate applied to the liability component on initial recognition was 2% per annum.

On 18 February 2016, certain CB 2018 holders exercised their Holders' Redemption Option and the Issuer redeemed and cancelled a principal amount of HK\$3,437,000,000 of CB 2018, representing approximately 88.13% of the initial principal amount of CB 2018 at a consideration of HK\$3,541,408,000, in accordance with the terms and conditions of the CB 2018.

During the year ended 31 December 2016, the Issuer also repurchased part of the CB 2018 with a principal amount of HK\$108,000,000 (2015: HK\$323,000,000) at a consideration of HK\$109,080,000 (2015: HK\$329,315,000).

At 31 December 2016, the outstanding principal amount of CB 2018 was HK\$32,000,000 (31 December 2015: HK\$3,577,000,000).

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35. CONVERTIBLE BONDS (Continued)

The movements of the liability component and equity components of CB 2018 for the year are set out as below:

	Liability component HK\$'000	Equity component HK\$'000
At 1 January 2015	3,826,613	114,442
Interest charged	177,466	–
Repurchase	(322,236)	(9,486)
At 31 December 2015	3,681,843	104,956
Interest charged	1,578	–
Redemption	(3,540,988)	(100,848)
Repurchase	(109,711)	(3,169)
At 31 December 2016	32,722	939

36. SHARE CAPITAL/SHARE PREMIUM AND RESERVES

	Number of ordinary shares	Amount HK\$'000
Ordinary shares, issued and fully paid:		
At 1 January 2015	1,082,761,600	13,527,827
Exercise of share options (Note (i))	3,586,000	88,062
Shares repurchase (Note (ii))	(497,000)	–
At 31 December 2015	1,085,850,600	13,615,889
Exercise of share options (Note (i))	715,000	17,560
At 31 December 2016	1,086,565,600	13,633,449

Notes:

- (i) During the year ended 31 December 2016, the Company issued 715,000 (2015: 3,568,000) shares to the option holders who exercised their share options at the exercise prices of HK\$22.71 (2015: HK\$22.71 or HK\$23.69) under the SIHL Scheme (as defined in Note 37). These new shares rank pari passu in all respects with other shares in issue.
- (ii) During the year ended 31 December 2015, the Company repurchased 497,000 of its own shares at a consideration of HK\$9,906,000 through the Stock Exchange. The amount was deducted directly in retained profits and no gain or loss is recognised in profit or loss.

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37. 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. Upon termination, no further share options would be granted and all previously granted share options remained valid until the end of the exercisable period. 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.

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37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(I) SIHL Scheme (Continued)

- (a) 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.
- (b) As at 31 December 2016, the number of shares in respect of which options were granted and which remained outstanding was 1,140,000 (2015: 14,641,000), representing 0.1% (2015: 1.3%) 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 directors, employees and other eligible participants during the year:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2015	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2015	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2016
November 2010	36.60	23,950,000	-	-	(23,950,000)	-	-	-	-	-
September 2011	22.71	17,233,000	(3,582,000)	(150,000)	-	13,501,000	(715,000)	(236,000)	(12,550,000)	-
May 2012	23.69	1,144,000	(4,000)	-	-	1,140,000	-	-	-	1,140,000
		42,327,000	(3,586,000)	(150,000)	(23,950,000)	14,641,000	(715,000)	(236,000)	(12,550,000)	1,140,000
Exercisable at the end of the year						14,641,000				1,140,000
Weighted average exercise price		30.60	22.71	22.71	36.60	22.79	22.71	22.71	22.71	23.69

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 1.1.2015	Lapsed during the year	Outstanding at 31.12.2015	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2016
November 2010	36.60	2,710,000	(2,710,000)	-	-	-	-
September 2011	22.71	2,168,000	-	2,168,000	(776,000)	(1,392,000)	-
May 2012	23.69	600,000	-	600,000	-	-	600,000
		5,478,000	(2,710,000)	2,768,000	(776,000)	(1,392,000)	600,000
Exercisable at the end of the year				2,768,000			600,000
Weighted average exercise price		29.89	36.60	22.92	22.71	22.71	23.69

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37. 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\$23.09 (2015: HK\$29.43). Total consideration received for shares issued upon exercise of share options, net of direct issue costs of HK\$1,000 (2015: HK\$16,600), was HK\$16,237,000 (2015: HK\$81,425,000).

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(II) SIHL New Scheme (Continued)

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 both years, no options were granted or outstanding 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(III) SI Urban Development Scheme (Continued)

- (b) As at 31 December 2016, the number of shares of SI Urban Development in respect of which options were granted and which remained outstanding was 41,750,000 (2015: 42,750,000), representing 0.87% (2015: 0.9%) 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 1.1.2015	Cancelled during the year	Outstanding at 31.12.2015	Cancelled during the year	Outstanding at 31.12.2016
Directors of SI Urban Development, who are also directors of the Company	September 2010	2.98	15,000,000	(8,000,000)	7,000,000	–	7,000,000
Other directors of SI Urban Development	September 2010	2.98	23,000,000	–	23,000,000	(1,000,000)	22,000,000
Employees of SI Urban Development	September 2010	2.98	12,750,000	–	12,750,000	–	12,750,000
Others	September 2010	2.98	7,000,000	(7,000,000)	–	–	–
			57,750,000	(15,000,000)	42,750,000	(1,000,000)	41,750,000
Exercisable at the end of the year					42,750,000		41,750,000

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) All the share options under the Scheme were vested and the related expenses were recognised in profit or loss in previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(IV) SI Urban Development New Scheme

The principal terms of the SI Urban Development New Scheme are set out below.

SI Urban Development, operates a share option scheme (the “SI Urban Development New Scheme”) which was first adopted on 16 May 2013 in an annual general meeting of SI Urban Development. Under the SI Urban Development New 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 New 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.

During both years, no options were granted or outstanding under the SI Urban Development New Scheme.

(V) SI Environment Scheme

The principal terms of the SI Environment Scheme are set out below.

SI Environment operates a share option scheme (the “SI Environment Scheme”), which was adopted on 27 April 2012 in an extraordinary general meeting of SI Environment. The SI Environment 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 Scheme, shall not 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 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 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 Scheme.

Under the SI Environment 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 both years, no options were granted or outstanding under the SI Environment Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES

(I) Acquisition of Longjiang Environmental Protection during the year ended 31 December 2016

In October 2016, the Group through its wholly owned subsidiary, Hong Kong Shun Yuen Investment (Holdings) Limited (“Shun Yuen”), and a listed subsidiary, SIIC Environment entered into acquisition agreements with certain independent third parties, pursuant to which the Group would acquire a total of approximately 47.8906% of equity interests in 龍江環保集團股份有限公司 (Longjiang Environment Protection Group Co., Ltd.) (“Longjiang Environment Protection”), a former associate of the Group, at an aggregate consideration of RMB1,226,000,000 (equivalent to HK\$1,368,914,000). Upon completion of the acquisitions in the same month, the Group holds a total of approximately 90.0000% equity interest in Longjiang Environment Protection which then becomes a non-wholly owned subsidiary of the Group.

	HK\$'000
Consideration transferred	
Cash	1,368,914
Interest in an associate (Note i)	1,219,078
	2,587,992
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	78,025
Other intangible assets	2,840,832
Receivables under service concession arrangements	4,584,168
Investments	18,069
Deferred tax assets	999
Inventories	20,167
Trade and other receivables	1,231,623
Bank balances and cash	953,710
Trade and other payables	(2,673,006)
Bank and other borrowings	(3,469,022)
Provision for major overhauls	(12,523)
Deferred tax liabilities	(679,758)
	2,893,284
Goodwill (bargain purchase gain) arising on acquisition	
Consideration transferred	2,587,992
Add: non-controlling interests (Note ii)	305,292
Less: net assets acquired	(2,893,284)
	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (Continued)

(I) Acquisition of Longjiang Environment Protection during the year ended 31 December 2016 (Continued)

	HK\$'000
Net cash outflow arising on acquisition	
Cash consideration paid	1,368,914
Less: bank balances and cash acquired	(953,710)
	415,204

Notes:

- (i) The previously held interest in Longjiang Environment Protection was remeasured at fair value at the date of acquisition and the resulting gain of HK\$308,565,000 was recognised in profit or loss (Note 9).
- (ii) Included in the amount is the 10% non-controlling interests in Longjiang Environment Protection recognised at the acquisition date that was measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets of Longjiang Environment Protection at that date and the non-controlling interests of Longjiang Environment Protection.

Included in the profit for year ended 31 December 2016 were revenue of HK\$518,959,000 and profit of HK\$31,314,000 attributable to the additional business generated by Longjiang Environment Protection.

Had the acquisition been completed on 1 January 2016, total group revenue for the current year would have been HK\$23,349,293,000, and profit for the year would have been HK\$4,944,679,000. 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 2016, nor is it intended to be a projection of future results.

(II) Acquisition of Shanghai Qiyao during the year ended 31 December 2016

In October 2016, SI Urban Development through its subsidiaries, acquired the two residential villa projects located in Shanghai through acquisition of the entire equity interest in 上海啟耀房地產開發有限公司 ("Shanghai Qiyao") from certain independent third parties at a cash consideration of RMB2,350,000,000 (equivalent to HK\$2,703,605,000). Shanghai Qiyao and its subsidiary, are engaged in the properties development and properties management business.

The assets acquired are investment properties and land parcels which are not fully developed. The acquisition is accounted for as assets acquisition.

	HK\$'000
Consideration transferred	
Cash paid	2,419,647
Consideration payable (Note)	283,958
Total consideration	2,703,605

Note: The consideration payable is withheld by the Group for settlement of EIT of the seller to the relevant PRC tax authority arising from the acquisition. The amount is expected to be settled within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (Continued)

(II) Acquisition of Shanghai Qiyao during the year ended 31 December 2016 (Continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment	860
Investment properties	2,165,185
Inventories – properties under development held for sale	204,942
Trade and other receivables	8,868
Bank balances and cash	81,566
Trade and other payables	(205,674)
Taxation payable	(24,397)
Bank borrowings – due within one year	(2,849)
Deferred tax liabilities	(1,385,406)
	843,095
Consideration transferred	2,703,605
Less: Fair value of identified net assets acquired (other than inventories)	(843,095)
Adjustment to carrying amount of inventories	1,860,510
	HK\$'000
Net cash outflow arising on acquisition	
Cash consideration paid	2,419,647
Less: Bank balances and cash acquired	(81,566)
	2,338,081

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (Continued)

(III) Acquisition of Fudan Water during the year ended 31 December 2015

In May 2015, SI Environment completed its acquisition of an indirect 92.15% equity interest in 上海復旦水務工程技術有限公司 (Fudan Water Engineering and Technology Co., Ltd.) ("Fudan Water") through acquisition of entire interest of immediate holding company of Fudan Water, from certain independent third parties. Fudan Water is principally engaged in the business of waste water treatment in the PRC. Fudan Water was acquired so as to continue the expansion of the Group's water-related business.

The consideration for the acquisition was RMB2,116,508,000 (equivalent to HK\$2,644,973,000), which included (i) the novation of shareholders' loan of RMB479,180,000 (equivalent to HK\$598,825,000); (ii) cash consideration of RMB146,882,000 (equivalent to HK\$183,557,000) and (iii) the allotment and issue of an aggregate of 1,560,000,000 ordinary shares of SI Environment. The fair value of consideration shares at the date of acquisition amounted to HK\$1,862,591,000 based on the closing market price in the SGX-ST at the date of acquisition.

	HK\$'000
Consideration transferred	
Cash	782,382
Consideration shares	1,862,591
	2,644,973
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	3,917
Other intangible assets	2,216,266
Receivables under service concession arrangements	1,035,710
Interests in associates	112,743
Investments	625
Inventories	14
Trade and other receivables	229,000
Pledged bank deposits	4,999
Bank balances and cash	34,391
Trade and other payables	(176,323)
Taxation payable	(1,793)
Bank and other borrowings	(83,729)
Amount due to intermediate holding companies	(598,825)
Deferred tax liabilities	(615,404)
	2,161,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (Continued)

(III) Acquisition of Fudan Water during the year ended 31 December 2015 (Continued)

	HK\$'000
Goodwill arising on acquisition	
Consideration transferred	2,644,973
Add: non-controlling interests (Note)	674,915
Less: net assets acquired	(2,161,591)
Less: shareholders' loan novated	(598,825)
	559,472
Net cash outflow arising on acquisition	
Cash consideration paid	782,382
Less: bank balances and cash acquired	(34,391)
	747,991

Note: Included in the amount is the 7.85% non-controlling interests in Fudan Water recognised at the acquisition date that was measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets of Fudan Water at that date, and the non-controlling interests of Fudan Water.

Goodwill arose in the acquisition of Fudan Water because the cost of the combination effectively included amounts in relation to the benefit of expected revenue growth, future market development and the assembled workforce of Fudan Water. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit for year ended 31 December 2015 were revenue of HK\$146,971,000 and profit of HK\$40,818,000 attributable to the additional business generated by Fudan Water.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (Continued)

(IV) Acquisition of other subsidiaries

During the year ended 31 December 2016, the Group also acquired the following subsidiaries.

- (i) In January 2016, SI Development completed its acquisition of 61.48% equity interest in 上海上實龍創智慧能源科技股份有限公司 (“Longchuang”) (previously named as 上海龍創節能系統股份有限公司) as detailed below.

In April 2015, SI Development and an independent third party (the “Seller”) entered into a share subscription agreement, pursuant to which SI Development agreed to issue and allot 20,000,000 ordinary shares in SI Development to the Seller, for a consideration of RMB234,000,000 (equivalent to HK\$278,009,000). The consideration would be settled by the Seller transferring to SI Development 9,181,978 shares in Longchuang, representing 19.13% of the equity interest in Longchuang and the balance of RMB94,740,000 (equivalent to HK\$112,558,000) by cash.

On the same day, SI Development and certain other Longchuang shareholders entered into a share transfer agreement, pursuant to which SI Development agreed to purchase 42.35% equity interest in Longchuang for a consideration of RMB308,344,000 (equivalent to HK\$366,335,000).

Longchuang is principally engaged in the business of construction equipment and provision of integrated energy-saving consultation.

- (ii) In February 2016, SIIC Environment, completed its acquisition of 90% equity interest in Yiyang City Tap Water Co., Ltd. (“Yiyang City”) from an independent third party at a cash consideration of RMB288,188,000 (equivalent to HK\$342,388,000). Yiyang City is principally engaged in the business of operating water supply plants and projects in the PRC.
- (iii) In December 2016, SIIC Environment completed the acquisition of 60% equity interest in Ranhill Water (Hong Kong) Co., Ltd. (“Ranhill”) from an independent third party at a cash consideration of RMB273,900,000 (equivalent to HK\$305,828,000). Ranhill and its subsidiaries are principally engaged in undertaking industrial waste water treatment services, as well as providing consultancy services on potable water, waste water technologies and environmental protection facilities.
- (iv) In August 2016, the Group acquired 74.8% equity interest of Rypax Ltd. (“Rypax”) from certain independent third parties at an aggregate cash consideration of US\$10,427,000 (equivalent to HK\$81,331,000). Rypax is principally engaged in trading of molded fiber goods and it was acquired for the expansion of the Group’s molded fiber goods business portfolio.
- (v) In July 2016, SI Development completed the acquisition of additional 60% equity interest in 上海嘉薈房地產有限公司 (“上海嘉薈”), a former 40% held associate of the Group, for a total cash consideration of RMB15,000,000 (equivalent to HK\$16,749,000). Upon completion of the acquisition, the Group has an interest in 100% of the equity interest in 上海嘉薈. 上海嘉薈 is principally engaged in the business of property development and sales in the PRC.

During the year ended 31 December 2015, the Group acquired the following subsidiaries.

- (i) In April 2015, SI Development acquired 90% equity interest in 湖南豐盛房地產開發有限公司 (“Hunan Feng Sheng”) from certain independent third parties for an aggregate cash consideration of RMB18,584,000 (equivalent to HK\$23,224,000). Hunan Feng Sheng is principally engaged in the business of property development and sales in the PRC.
- (ii) In July 2015, the Group acquired 70% equity interest in 青島永發模塑有限公司 (Qingdao Wing Fat Molded Fibre Co., Ltd.) (“Qingdao Wing Fat”) from certain independent third parties for an aggregate cash consideration of RMB56,000,000 (equivalent to HK\$68,276,000). Qingdao Wing Fat is principally engaged in the business of manufacture and sales of molded fiber goods in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (Continued)

(IV) Acquisition of other subsidiaries (Continued)

	2016						2015
	Longchuang HK\$'000	Yiyang City HK\$'000	Ranhill HK\$'000 (Note i)	上海嘉善 HK\$'000	Others HK\$'000	Total HK\$'000	Total HK\$'000
Consideration transferred							
Cash	366,335	–	250,000	16,749	81,331	714,415	91,500
Consideration shares	165,451	–	–	–	–	165,451	–
Consideration payable	–	–	55,828	–	–	55,828	–
Deposit paid as at 31 December 2015	–	342,388	–	–	–	342,388	–
Available-for-sale investment	–	–	–	8,987	–	8,987	–
	531,786	342,388	305,828	25,736	81,331	1,287,069	91,500
Assets acquired and liabilities recognised at the date of acquisition are as follows:							
Property, plant and equipment	5,078	5,137	1,236	776	1,735	13,962	23,786
Other intangible assets	81,947	631,914	170,715	–	122,398	1,006,974	–
Receivables under service concession arrangements	–	–	876,715	–	311,830	1,188,545	–
Deposits paid on property, plant and equipment	–	1,188	5,591	–	22,447	29,226	–
Deferred tax assets	7,158	4,029	467	–	–	11,654	–
Inventories	455,016	3,645	708	1,169,586	4,682	1,633,637	375,603
Trade and other receivables	300,239	8,747	30,661	2,054	125,102	466,803	297,099
Prepaid taxation	–	–	–	–	–	–	247
Pledged bank deposits	–	–	–	–	3,355	3,355	–
Bank balances and cash	199,426	33,492	12,651	3,668	52,022	301,259	6,895
Trade and other payables	(419,468)	(144,740)	(282,318)	(1,150,348)	(245,782)	(2,242,656)	(420,559)
Taxation payable	–	–	–	–	(5,362)	(5,362)	–
Bank and other borrowings	(189,577)	(74,708)	(229,228)	–	(234,805)	(728,318)	(216,196)
Deferred tax liabilities	–	(88,273)	(77,483)	–	(14,383)	(180,139)	–
	439,819	380,431	509,715	25,736	143,239	1,498,940	66,875
Goodwill (bargain purchase gain) arising on acquisition							
Consideration transferred	531,786	342,388	305,828	25,736	81,331	1,287,069	91,500
Add: non-controlling interests (Note ii)	169,400	38,043	203,887	–	125,739	537,069	13,610
Less: net assets acquired	(439,819)	(380,431)	(509,715)	(25,736)	(143,239)	(1,498,940)	(66,875)
	261,367	–	–	–	63,831	325,198	38,235
Net cash outflow (inflow) arising on acquisition							
Cash consideration paid	366,335	–	250,000	16,749	81,331	714,415	91,500
Less: bank balances and cash acquired	(199,426)	(33,492)	(12,651)	(3,668)	(52,022)	(301,259)	(6,895)
	166,909	(33,492)	237,349	13,081	29,309	413,156	84,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES (Continued)

(IV) Acquisition of other subsidiaries (Continued)

Notes:

- (i) The initial accounting of this acquisition is not yet completed and the assets acquired and liabilities recognised and the amounts recognised in these condensed consolidated financial statements for this acquisition have been determined provisionally. The professional valuation conducted by an independent valuer has not yet been finalised on the date when these condensed consolidated financial statements are issued.
- (ii) Included in the amounts are the non-controlling interests of the subsidiaries acquired recognised at the respective acquisition dates that were measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets at those dates and the non-controlling interests of those acquired subsidiaries.
- (iii) Goodwill arose in the acquisitions in both years because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit for the year ended 31 December 2016 were revenues of HK\$966,707,000 and nil, and profit of HK\$81,894,000 and nil attributable to the additional businesses generated by Longchuang and Ranhill, respectively.

Had the acquisitions of Longchuang and Ranhill been completed on 1 January 2016, total group revenue for the current year would have been HK\$22,131,758,000 and HK\$22,337,549,000, and profit for the year would have been HK\$4,839,900,000 and HK\$4,871,996,000, respectively. 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 acquisitions been completed on 1 January 2016, nor is it intended to be a projection of future results. No proforma information for the acquisition of Longchuang is prepared as the acquisition was completed on 1 January 2016.

The directors of the Company are of the opinion that the other subsidiaries acquired had no significant contribution to the Group's revenue or financial performance for each of the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES/DISPOSAL OF SUBSIDIARIES/DISPOSAL OF DISPOSAL GROUP

(I) Disposal of assets through disposal of interests in subsidiaries during the year ended 31 December 2016

(i) *Disposal of Green Carbon Fund*

During the year ended 31 December 2015, (i) SUD (as defined in Note 48), (ii) Green Carbon Fund, a limited partnership established in the PRC, (iii) the Departing Partner, and (iv) the New Partners entered into an investment agreement. Pursuant to which, the New Partners invested RMB1,368,000,000 (equivalent to HK\$1,633,628,000) into Green Carbon Fund, and same amount was then advanced from Green Carbon Fund to SUD for the purpose of identifying investment opportunities on new projects.

As at 31 December 2015, in view of no potential new projects had been identified by SUD, SUD negotiated with the New Partners to dispose of an exclusive right for a designated portion of the “U Center” project (the “Carved-out Site”) held by Shanghai Urban Development Group Longcheng Properties Co., Ltd. (“SUD Longcheng”) through disposal of its entire partnership interest in Green Carbon Fund for a consideration of RMB1,668,000,000 (equivalent to HK\$1,991,880,000). The New Partners agreed that they would not exert influence, neither would they be entitled to any distribution of profits of SUD Longcheng nor obliged to bear additional obligations of SUD Longcheng, other than the exclusive right of the Carved-out Site. The land use right of the Carved-out Site still remains under the name of SUD Longcheng.

On 8 January 2016, SUD entered into a redemption agreement with Green Carbon Fund, the Departing Partner and the New Partners. As stated on the redemption agreement, any amounts SUD received previously and owed to Green Carbon Fund, amounted to RMB1,368,000,000 (equivalent to HK\$1,633,628,000), could be used to offset the redemption consideration. During the year ended 31 December 2016, the remaining balance of the redemption consideration of RMB300,000,000 (equivalent to HK\$358,252,000) was fully settled.

(ii) *Disposal of SUD Longcheng*

On 12 May 2016, SUD entered into an equity transfer agreement with 中庚地產實業集團有限公司 (Zhonggeng Real Estate Industrial Group Co., Ltd.) (“Zhonggeng Real Estate”), a connected person of the Company at the subsidiary level. Pursuant to the equity transfer agreement, SUD agreed to dispose of an exclusive right for the remaining designated portion of the “U Center” project held by SUD Longcheng, through disposal of 40% equity interest in SUD Longcheng, for a consideration of RMB1,907,000,000 (equivalent to HK\$2,225,464,000). The consideration carries interest at the People's Bank of China rate and is payable by instalments within one year. As at 31 December 2016, RMB1,607,000,000 (equivalent to HK\$1,868,605,000) has been settled and the remaining consideration receivable of RMB300,000,000 (equivalent to HK\$348,838,000) was included in other receivables.

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For the year ended 31 December 2016

39. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES/DISPOSAL OF SUBSIDIARIES/DISPOSAL OF DISPOSAL GROUP (Continued)

(I) Disposal of assets through disposal of interests in subsidiaries during the year ended 31 December 2016 (Continued)

The above assets were disposed during the year ended 31 December 2016 and further details of the disposals are set out below:

	Green Carbon Fund HK\$'000	SUD Longcheng HK\$'000	Total HK\$'000
Consideration			
Deposit received as at 31 December 2015	1,633,628	–	1,633,628
Cash received	358,252	1,868,605	2,226,857
Consideration receivables (Note 29(vi))	–	348,838	348,838
	1,991,880	2,217,443	4,209,323
Analysis of assets and liabilities over which control was lost			
Properties, plant and equipment	–	755	755
Properties under development for sale	2,393,272	2,597,248	4,990,520
Other receivables	3,045	4,369,843	4,372,888
Bank balances and cash	–	107,931	107,931
Other payables	(1,518,600)	(557,811)	(2,076,411)
Bank borrowings	–	(5,581,395)	(5,581,395)
Net assets disposed of	877,717	936,571	1,814,288
Gain on disposal of assets through disposal of a subsidiary			
Consideration	1,991,880	2,217,443	4,209,323
Net assets disposed of	(877,717)	(936,571)	(1,814,288)
	1,114,163	1,280,872	2,395,035
Net cash inflow arising on disposal			
Cash received	358,252	1,868,605	2,226,857
Less: bank balances and cash disposed of	–	(107,931)	(107,931)
	358,252	1,760,674	2,118,926

The subsidiaries disposed of during the year ended 31 December 2016 did not have any significant contribution to the financial performance and cash flows of the Group during the period prior to the disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES/DISPOSAL OF SUBSIDIARIES/DISPOSAL OF DISPOSAL GROUP (Continued)

(II) Disposal of subsidiaries during the year ended 31 December 2015

- (i) On 28 December 2015, Neo-China Land Group (China) Ltd (“Neo-China Land Group”), a wholly owned subsidiary of SI Urban Development, and an independent third party entered into a sale and purchase agreement (the “S&P Agreement”). Pursuant to which, Neo-China Land Group agreed to dispose of its entire 100% equity interest in Neo-China Real Estate (Shanghai) Limited (“Neo-China Real Estate”), and discharge of Neo-China Real Estate’s shareholder loan of RMB2,677,800,000 (equivalent to HK\$3,197,755,000) for a total consideration of RMB3,100,000,000 (equivalent to HK\$3,701,935,000) (collectively referred to as the “Disposal”). The Disposal was completed at the date of signing the S&P Agreement which was on 28 December 2015 (the “Disposal Date”). RMB100,000,000 (equivalent to HK\$119,417,000) of the total consideration was received as a deposit upon signing the letter of intent on 29 September 2015, RMB799,912,634 (equivalent to HK\$955,234,000) of the total consideration was received on the Disposal Date and the remaining RMB2,200,087,366 (equivalent to approximately HK\$2,627,284,000) of the total consideration (i.e. consideration receivable see Note 29(vi)(a)) would be received within 180 days from the Disposal Date in accordance with the terms of the S&P Agreement.

According to the S&P Agreement, the purchaser is required to pay a daily interest on the consideration receivable from the Disposal Date until the consideration receivable is settled in full. The daily interest rate is calculated on the basis of (i) for the first 90 days after the Disposal Date, the People’s Bank of China Benchmark Lending Rate as of the Disposal Date and divided by 365 days; and (ii) thereafter, a daily interest rate of 0.05%.

Neo-China Real Estate is principally engaged in property development in a piece of land located at Qiao Island, Zhuhai City (珠海市淇澳島) in the PRC with a gross site area of 2,215,516 square metres and the land was intended to be developed into a mixed use complex comprising commercial property and residential villas (the “Zhuhai Qiao Island Project”).

- (ii) In September 2015, SI Development disposed of its entire interest in a subsidiary, namely 哈爾濱上實置業有限公司 (“Harbin S.I. Properties”), to an independent third party for a consideration of RMB62,085,000 (equivalent to HK\$77,587,000). Harbin S.I. Properties is principally engaged in the business of property development and sales in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES/DISPOSAL OF SUBSIDIARIES/DISPOSAL OF DISPOSAL GROUP (Continued)

(II) Disposal of subsidiaries during the year ended 31 December 2015 (Continued)

Further details of the consideration, and assets and liabilities disposed of in respect of the disposed subsidiaries during the years ended 31 December 2015 are set out below:

	Zhuhai Qiao Island Project HK\$'000	Harbin S.I. Properties HK\$'000	Total HK\$'000
Consideration			
Cash received	1,074,651	77,587	1,152,238
Consideration receivable (Notes i & 29(vi))	2,627,284	–	2,627,284
Total consideration	3,701,935	77,587	3,779,522
Analysis of assets and liabilities over which control was lost			
Property, plant and equipment	126	–	126
Inventories	2,665,163	–	2,665,163
Trade and other receivables	140	75,477	75,617
Bank balances and cash	1,336	424	1,760
Trade and other payables	–	(26)	(26)
Consideration payables for acquisition of subsidiaries	(160,070)	–	(160,070)
Taxation payable	–	(8)	(8)
Net assets disposed of	2,506,695	75,867	2,582,562
Gain (loss) on disposal			
Consideration	3,701,935	77,587	3,779,522
Net assets disposed of	(2,506,695)	(75,867)	(2,582,562)
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	–	(1,965)	(1,965)
	1,195,240	(245)	1,194,995
Net cash inflow arising on disposal			
Cash consideration received	1,074,651	77,587	1,152,238
Less: bank balances and cash disposed of	(1,336)	(424)	(1,760)
	1,073,315	77,163	1,150,478

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For the year ended 31 December 2016

39. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES/DISPOSAL OF SUBSIDIARIES/DISPOSAL OF DISPOSAL GROUP (Continued)

(II) Disposal of subsidiaries during the year ended 31 December 2015 (Continued)

Notes:

- (i) As security for the payment of consideration receivable, as at 31 December 2015 the purchaser entered into a share charge dated 28 December 2015 in favour of Neo-China Land Group in respect of the entire issued share capital of Neo-China Real Estate. The parties agreed that the issued share capital of Neo-China Real Estate would be increased after the Disposal Date by the purchaser subscribing for new shares in Neo-China Real Estate, and then Neo-China Land Group would release the share charge in respect of 29% of the enlarged issued share capital of Neo-China Real Estate. The share charge would be released in full following the full payment by the purchaser of the consideration receivable. In the event that the purchaser fails to pay the consideration receivable within 180 days from the Disposal Date, Neo-China Land Group is entitled to terminate the S&P Agreement. The consideration receivable was settled in full by cash during the year ended 31 December 2016.
- (ii) Except for the Zhuhai Qiao Island Project, the subsidiaries disposed of during the year ended 31 December 2015 did not have any significant contribution to the financial performance and cash flows of the Group during the period prior to the disposals.

(III) Disposal of disposal group during the year ended 31 December 2015

In August 2014, the Group resolved to dispose of its entire 100% equity interest in Bold Eagle Investment Limited, a wholly owned subsidiary of SI Urban Development, and its wholly owned subsidiaries including All Win Investment Limited and 中歐城開有限公司 (collectively refer to as the “Bold Eagle Group”). Accordingly, the major classes of assets and liabilities of Bold Eagle Group were separately presented in the consolidated statement of financial position as at 31 December 2014.

Subsequently on 10 February 2015, SI Urban Development entered into a share transfer agreement with an independent third party. Pursuant to the share transfer agreement, SI Urban Development agreed to dispose of its entire 100% equity interest in Bold Eagle Group at a consideration of RMB940,000,000 (equivalent to HK\$1,174,706,000). Bold Eagle Group is principally engaged in the business of property development in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES/DISPOSAL OF SUBSIDIARIES/DISPOSAL OF DISPOSAL GROUP (Continued)**(III) Disposal of disposal group during the year ended 31 December 2015 (Continued)**

Further details of the disposal are set out below:

	HK\$'000
Consideration	
Cash received	1,074,731
Deposit received at 31 December 2014	99,975
Total consideration	1,174,706
Analysis of assets and liabilities over which control was lost	
Property, plant and equipment	131
Inventories	722,133
Bank balances and cash	103
Trade and other payables	(28)
Net assets disposed of	722,339
Gain on disposal	
Consideration	1,174,706
Net assets disposed of	(722,339)
	452,367
Net cash inflow arising on disposal	
Cash consideration received	1,074,731
Less: bank balances and cash disposed of	(103)
	1,074,628

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For the year ended 31 December 2016

40. OPERATING LEASES

(I) The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	53,868	100,633
In the second to fifth year inclusive	68,254	69,871
After five years	48,008	58,557
	170,130	229,061

Notes:

- (i) Operating lease payments represent rentals payable by the Group 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 to the ultimate holding company and certain fellow subsidiaries as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	8,007	48,434
In the second to fifth year inclusive	–	8,157
	8,007	56,591

(II) The Group as lessor

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:

	2016 HK\$'000	2015 HK\$'000
Within one year	612,064	759,574
In the second to fifth year inclusive	1,098,640	1,771,169
After five years	580,128	1,135,508
	2,290,832	3,666,251

Note: Included in the above are operating lease commitments for investment properties of approximately HK\$24.6 million (2015: HK\$16.6 million) receivable by the Group from certain fellow subsidiaries within one year.

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For the year ended 31 December 2016

41. CAPITAL COMMITMENTS

	2016 HK\$'000	2015 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of property, plant and equipment	19,009	109,330
– additions in construction in progress	1,475,400	694,134
– additions in properties under development held for sale	4,283,648	4,665,502
– investment in an associate	53,595	57,320
	5,831,652	5,526,286
Capital expenditure authorised but not contracted for in respect of additions in construction in progress	–	191,476

42. CONTINGENT LIABILITIES

	2016 HK\$'000	2015 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by		
– property buyers	4,926,279	2,553,957
– an entity controlled by the Xuhui SASAC	163,019	263,912
– joint ventures	1,779,633	1,029,708
	6,868,931	3,847,577

As at 31 December 2016, the Company granted financial guarantees to the extent of approximately HK\$14,400 million (2015: HK\$9,722 million) to banks in respect of banking facilities granted to its subsidiaries, out of which approximately HK\$7,307 million (2015: HK\$6,596 million) were utilised.

43. PLEDGE OF ASSETS

The following assets were pledged by the Group to banks to secure banking facilities granted by these banks to the Group:

- (i) investment properties with an aggregate carrying value of HK\$11,585,060,000 (2015: HK\$12,613,259,000);
- (ii) leasehold land and buildings with an aggregate carrying value of HK\$906,567,000 (2015: HK\$1,569,254,000);
- (iii) plant and machineries with an aggregate carrying value of HK\$20,218,000 (2015: HK\$25,529,000);
- (iv) One (2015: One) toll road operating right with a carrying value of HK\$2,415,929,000 (2015: HK\$2,778,489,000);
- (v) receivables under service concession arrangements with an aggregate carrying value of HK\$9,179,515,000 (2015: HK\$2,440,439,000);
- (vi) properties under development held for sale with an aggregate carrying value of HK\$5,644,075,000 (2015: HK\$8,279,494,000);
- (vii) properties held for sale with an aggregate carrying value of HK\$16,233,000 (2015: HK\$1,541,220,000);
- (viii) trade receivables with an aggregate carrying value of HK\$63,968,000 (2015: HK\$188,229,000); and
- (ix) bank deposits with an aggregate carrying value of HK\$430,853,000 (2015: HK\$362,252,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. 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 statement of profit or loss 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.

45. 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	2016 HK\$'000	2015 HK\$'000
Transactions			
Ultimate holding company	Rentals paid by the Group on land and buildings (Note b)	1,752	1,850
Fellow subsidiaries	Rentals and management fee paid by the Group on land and buildings (Note b)	49,812	49,307
Joint venture	Loan provided by the Group (Note c)	466,682	417,960
Balance			
<i>Non-controlling shareholders of subsidiary:</i>			
The Xuhui SASAC and entities controlled by the Xuhui SASAC	Non-trade payables by the Group (Note d)	352,715	462,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

- (b) 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.

Details of operating lease commitments with commented parties are set out in Note 40.

- (c) In September 2014, 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 a shareholder's loan agreement with Shanghai Galaxy, a non-wholly owned subsidiary of SIIC. Pursuant to which, Shanghai Hu-Ning Expressway has agreed to lend, and Shanghai Galaxy has agreed to borrow, a shareholder's loan in an amount of RMB200,000,000 (equivalent to HK\$238,834,000). In April 2015, both parties entered into a second shareholder's loan agreement, in terms of which Shanghai Hu-Ning Expressway has agreed to lend, and Shanghai Galaxy has agreed to borrow, an additional shareholder's loan in an amount of RMB150,000,000 (equivalent to HK\$179,126,000).

In January 2016, Hu-Ning expressway agreed to make a shareholder's loan facility in an aggregate principal amount of up to RMB500,000,000 for the three years from 21 January 2016 to Shanghai Galaxy. The relevant loan amount would be determined on a case-by-case basis, with the maximum amount representing the unutilised portion of the facility. The duration of each term loan would be negotiated on a case-by-case basis and each term loan would expire by the end of the three-year period from 21 January 2016. The interest should be the benchmark interest rate of RMB denominated loans for the same period as announced by the People's Bank of China and be repaid on a semi-annual basis.

As at 31 December 2016, the loan provided to Shanghai Galaxy amounted to RMB350 million (equivalent to approximately HK\$391 million) and loan interest received from Shanghai Galaxy amounted to RMB20 million (equivalent to approximately HK\$23 million).

- (d) The amounts due to the Xuhui SASAC and entities controlled by the Xuhui SASAC are unsecured. An amount of HK\$118,356,000 (2015: HK\$78,815,000) included in the balances as at 31 December 2016 represents loan advanced from an entity controlled by the Xuhui SASAC through an entrusted loan agreement administrated by a bank, which carries fixed interest at 15% per annum (2015: 12.5%) per annum and are repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable on demand.

- (e) 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 Co., Ltd. ("Shanghai Urban Development"), a subsidiary of SI 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.

On 9 February 2015, the parties entered into a new supplemental agreement and the limit has been reduced to RMB332 million from 1 January 2016 onwards.

As at 31 December 2016, 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 RMB146 million (equivalent to approximately HK\$163 million) (2015: RMB166 million (equivalent to approximately HK\$198 million)).

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45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

(e) (Continued)

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.

- (f) In January 2016, the shareholders of Shanghai Galaxy passed a resolution to approve a capital increase of Shanghai Galaxy. As such, each of Hu-Ning Expressway and the other shareholder, SIIC Shanghai (Holdings) Co., Ltd., each holding 50% equity interest of Shanghai Galaxy, made an additional capital contribution of RMB150,000,000, respectively to Shanghai Galaxy.
- (g) In June 2016, Hu-Ning Expressway and a bank entered into an entrusted loan entrustment contract, pursuant to which Hu-Ning Expressway agreed to entrust a sum of RMB100,000,000 with the bank which should provide loan(s) to designated borrowers upon instructions from Hu-Ning Expressway. On the same date, the bank and 上海上實金融服務控股有限公司 ("SIIC Financial Services") entered into an entrusted loan contract in respect of the provision of the loan in the principal amount of RMB100,000,000 to be made pursuant to the entrusted loan contracts by Hu-Ning Expressway, through a bank, to SIIC Financial Services. The entrusted loan is of a term of twelve months and carries a fixed rate of interest of 4.64% per annum.
- (h) Hu-Ning expressway and Shanghai Galaxy are existing shareholders of 浙江五芳齋實業股份有限公司 ("Wufangzhai"). In October 2016, Hu-Ning expressway entered into a share transfer agreement with an existing shareholder of Wufangzhai, pursuant to which Hu-Ning expressway agreed to purchase 2,000,000 shares in Wufangzhai for a consideration of RMB56,000,000.
- (i) In September 2016, 上海申渝公路建設發展有限公司 ("Shen-Yu Highway"), a bank and Shanghai Galaxy entered into an entrusted loan contract, pursuant to which Shen-Yu Highway entrusted the bank to grant a loan in the principal amount of RMB200,000,000 to Shanghai Galaxy. The entrusted loan is of a term of twelve months commencing from September and carries a fixed rate of interest of 4.64% per annum.
- (j) On 28 April 2015, SI Development and 上海上投資產經營有限公司 ("Shanghai Assets"), a subsidiary of SIIC, entered into a share subscription agreement (the "First SI Development Share Issuance Contract"), pursuant to which SI Development agreed to issue, and Shanghai Asset agreed to subscribe for, 85,470,085 shares of SI Development, representing approximately 7.89% of SI Development's then total issued shares or 5.35% of the enlarged total issued shares, at an issue price of RMB11.7 per share for a consideration of RMB999,999,994.50. The consideration shall be payable by Shanghai Asset to SI Development in cash.

Subsequent to a dividend on ordinary shares distributed by SI Development in July 2015, the issue price for shares in SI Development under the First SI Development Share Issuance Contract was adjusted from RMB11.70 to RMB11.63 per share pursuant to the price adjustment mechanism under the First SI Development Share Issuance Contract. As a result of the adjustment to the issue price and based on the total subscription amount to be paid by Shanghai Asset under the First SI Development Share Issuance Contract, the number of ordinary shares in SI Development to be issued to Shanghai Asset will be adjusted accordingly. As the number of shares to be issued must be a whole number, the final total subscription amount (being the product of the number of shares to be issued and the adjusted issue price per share) to be paid by Shanghai Asset will be adjusted slightly from RMB999,999,994.50 to RMB999,999,990.86. The placing of ordinary shares in SI Development to Shanghai Asset pursuant to the First SI Development Share Issuance Contract was completed on 22 January 2016.

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45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(I) Connected persons (Continued)

- (k) On 28 April 2015, SI Development and SIIC Shanghai entered into an equity transfer agreement, pursuant to which SIIC Shanghai agreed to sell, and SI Development agreed to purchase, 100% equity interest in Shanghai Investment for a consideration of RMB3.4 billion. The consideration shall be payable by SI Development to SIIC Shanghai with funds raised from the issuance of new shares of SI Development by SI Development as detailed above. On 15 May 2015, SI Development and SIIC Shanghai entered into a supplement agreement to amend the final consideration to RMB3,432,703,000. The acquisition was completed on 22 December 2015.
- (l) On 28 April 2015, SI Development and an independent third party (the "Seller") entered into a share subscription agreement, pursuant to which SI Development agreed to issue and allot 20,000,000 ordinary shares in SI Development to the Seller, for a consideration of RMB234 million. The consideration shall be payable by the Seller to SI Development partly by 9,181,978 shares in Longchuang, being 19.13% of the equity interest in Longchuang and the balance in cash. On the same day, SI Development and certain other Longchuang shareholders entered into a share transfer agreement, pursuant to which the other Longchuang shareholders agreed to sell, and SI Development agreed to purchase, 42.35% equity interest in Longchuang for a consideration of RMB308,344,000. The consideration shall be payable by SI Development with funds raised from the issuance of new shares of SI Development by SI Development. Upon completion of the above-mentioned acquisition in January 2016, SI Development made capital contribution of RMB200 million to Longchuang. After such, SI Development altogether holds 69.78% equity interests in Longchuang.
- (m) At 31 December 2016, a bank borrowing amounting to approximately RMB500 million (equivalent to approximately HK\$558 million) (2015: RMB500 million (equivalent to approximately HK\$597 million)) was secured by properties owned by the Group and a fellow subsidiary of the Group.
- (n) Details of amounts due to certain fellow subsidiaries are set out in Note 32.
- (o) Details of the acquisition of Yield Express Group from a connected person are set out in Note 2.
- (p) Details of the disposal of SUD Longcheng to a connected person are set out in Note 29.

(II) Related parties, other than connected persons

In addition to the transactions set out in Note 47(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 transactions and balances	2016 HK\$'000	2015 HK\$'000
Joint venture:			
Shanghai Galaxy	Interest income received by the Group	24,747	23,140
Associates:			
泉州市上實投資發展有限公司	Interest income received by the Group	65,721	63,811
上海城開地產經紀有限公司	Property agency fees paid by the Group	17,073	22,401
(Shanghai Urban Development Real Estate Agency Co., Ltd.)	Trade payables by the Group	50,371	58,007

Details of amounts due from (to) associates are set out in Notes 29 and 32, respectively.

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45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(III) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2016 HK\$'000	2015 HK\$'000
Short-term benefits	28,712	29,716

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

46. 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 predominated 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 45, 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.

47. GOVERNMENT GRANTS

During the year ended 31 December 2016, government grants of approximately HK\$50.6 million (2015: HK\$51.0 million) were received from local government as compensation for the decrease of toll fee income on a discretionary basis. Business and other taxes refund from local tax authorities of approximately HK\$141.6 million (2015: HK\$105.2 million) were also received in the current year. Besides, an amount of approximately HK\$40.7 million (2015: HK\$43.3 million) was received as incentives for investments in certain provinces in the PRC. These amounts have been included in other income.

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48. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2016 and 2015 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		Principal activities
			2016	2015	
SI Development (Note i)	The PRC	A shares – RMB1,844,562,892 (2015: RMB1,083,370,871)	48.60%	63.65%	Property development and investment
SI Urban Development (Note ii)	Bermuda/ The PRC	Ordinary shares – HK\$192,461,000	69.96%	69.96%	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 – RMB4,861,138,000	37.57% (Note 5)	35.55% (Note 5)	Sewage treatment and water supply
S.I. Infrastructure Holdings Limited (“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 Tobacco Company, Limited	Hong Kong	Ordinary shares – HK\$2 Non-voting deferred shares (Note vi) – HK\$8,000,000	100% –	100% –	Manufacture and sale of cigarettes

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For the year ended 31 December 2016

48. PRINCIPAL SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries at 31 December 2016 and 2015 are as follows: (Continued)

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		Principal activities
			2016	2015	
The Wing Fat Printing Company, Limited	Hong Kong	Ordinary shares – HK\$83,030,000	93.76%	93.74%	Manufacture and sale of packaging materials and printed products
Tong Jie Limited ("Tong Jie")	The British Virgin Islands/ Hong Kong	Ordinary share – US\$1	100%	100%	Issue of convertible bonds

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 SGX-ST.
- (v) Except for S.I. Infrastructure, SIHL Treasury and Tong Jie, 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 Note 35, 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.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. These subsidiaries are mainly dormant companies or subsidiaries principally engaged in investment holding.

None of the subsidiaries had issued any debt securities at the end of the year except for those disclosed in Notes 34 and 35.

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For the year ended 31 December 2016

48. PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ principal place of business	Proportion of ownership interest and voting rights held by non- controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SI Development	The PRC	51.40%	36.35%	389,125	221,127	4,204,098	2,119,003
SI Urban Development	Bermuda/ The PRC	30.04%	30.04%	148,857	151,867	3,130,050	3,213,434
SUD	The PRC	41%	41%	789,966	32,973	6,993,370	6,697,155
SI Environment	The Republic of Singapore/ The PRC	62.43% (Note 5)	64.45% (Note 5)	330,473	266,800	4,423,166	4,518,834
Individually immaterial subsidiaries with non-controlling interests						6,805,544	2,713,190
						25,556,228	19,261,616

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	SI Development (Consolidated)		SI Urban Development (Consolidated, including SUD)		SUD (Consolidated)		SI Environment (Consolidated)	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	34,242,205	29,497,817	41,068,711	48,191,695	31,063,271	31,154,167	4,392,127	2,443,474
Non-current assets	6,276,806	4,650,972	17,621,519	16,189,366	4,812,388	6,238,267	21,613,963	12,498,554
Current liabilities	(16,888,495)	(15,193,160)	(17,904,272)	(25,780,889)	(12,677,521)	(13,371,799)	(7,755,573)	(4,526,964)
Non-current liabilities	(11,511,231)	(11,673,501)	(18,833,342)	(18,826,792)	(8,647,373)	(10,326,693)	(8,547,737)	(2,360,090)
Equity attributable to owners of the Company	6,630,528	4,225,704	9,393,261	9,582,101	7,557,395	6,996,787	2,414,288	2,254,043
Non-controlling interests	4,204,098	2,119,003	3,130,050	3,213,434	6,993,370	6,697,155	4,423,166	4,518,834

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For the year ended 31 December 2016

48. PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

	SI Development (Consolidated)		SI Urban Development (Consolidated, including SUD)		SUD (Consolidated)		SI Environment (Consolidated)	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	7,287,129	7,583,985	5,490,564	3,871,923	6,334,007	2,185,457	3,065,179	2,204,904
Profit for the year	952,161	711,038	1,299,317	527,854	1,830,780	43,230	619,660	511,274
Other comprehensive income (expense) for the year	398,967	276,130	(783,388)	(884,410)	(1,073,357)	(535,181)	(453,577)	(338,219)
Total comprehensive income (expense) for the year	1,351,128	987,168	515,929	(356,556)	757,423	(491,951)	166,083	173,055
Profit for the year attributable to the owners of the Company	367,927	387,200	345,783	353,386	1,040,814	10,257	189,471	165,384
Profit for the year attributable to the non-controlling interests	389,125	221,127	148,857	151,867	789,966	32,973	330,473	266,800
Total comprehensive income (expense) for the year attributable to the owners of the Company	759,767	579,778	(346,421)	(251,357)	459,058	(305,500)	18,073	39,532
Total comprehensive income (expense) for the year attributable to the non-controlling interests	396,252	304,679	57,673	213,662	298,365	(186,451)	48,294	54,433
Dividends paid to non-controlling interests	139,233	475,096	-	63,669	-	-	-	-
Net cash inflow (outflow) from operating activities	6,604,171	(1,665,591)	4,624,708	190,660	4,985,157	2,410,235	(98,270)	(78,542)
Net cash (outflow) inflow from investing activities	(3,201,610)	(590,764)	(1,437,422)	4,140,479	1,268,632	23,368	(217,980)	(1,124,086)
Net cash inflow (outflow) from financing activities	1,982,844	2,011,661	(969,876)	947,560	(2,229,487)	1,013,500	1,285,629	809,375
Net cash inflow (outflow)	5,385,405	(244,694)	2,217,410	5,278,699	4,024,302	3,447,103	969,379	(393,253)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

49. PRINCIPAL JOINT VENTURES

Particulars of the Group's principal joint ventures at 31 December 2016 and 2015 are as follows:

Name of joint venture	Place of establishment/ operations	Percentage of registered capital attributable to the Group		Principal activities
		2016	2015	
Shanghai Galaxy	The PRC	50%	50%	Operation of photovoltaic related business in the PRC and provision of asset management services
General Water	The PRC	45%	45%	Joint investment and operation of water-related and environment protection business in the PRC

Notes:

- (i) The above joint ventures are indirectly held by the Company and the Group has members in the board of directors of the respective entities.
- (ii) The above table lists the joint ventures 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 joint ventures would, in the opinion of the directors, result in particulars of excessive length.

50. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2016 and 2015, 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
		2016	2015 (restated)	
Longjiang Environmental Protection	Sino-foreign joint venture	N/A	25.8% (Note i)	Operating of water related and environment protection business in the PRC
Shanghai Shentian	Sino-foreign joint venture	14.5% (Note ii)	14.5% (Note ii)	Property development
Hangzhou Bay Bridge	Sino-foreign joint venture	23.1% (Note iii)	23.1% (Note iii)	Holding a right to operate a road bridge

Notes:

- (i) As at 31 December 2015, this was a 25.3% owned associate of SI Environment, in which the Group owned 35.55% equity interest as at 31 December 2015. In addition to the Group's directly held 16.8% equity interest, the Group totally held 25.8% equity interest as at 31 December 2015. In October 2016, Longjiang Environmental Protection became a subsidiary of the Group as detailed in Note 38(I).
- (ii) This is a 35% owned associate of SUD, in which the Group indirectly owns 59% equity interest through SI Urban Development, a 69.96% owned listed subsidiary.
- (iii) In December 2016, the Group acquired 23.1% equity interest in Hangzhou Bay Bridge through the acquisition of a subsidiary, Yield Express, as detailed in Note 2. The Group accounted for this acquisition using the principles of merger accounting in accordance with AG 5.
- (iv) The above associates are indirectly held by the Company.
- (v) 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.

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51. 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.

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 2016

	Infrastructure facilities HK\$'000	Real estate HK\$'000	Consumer products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
REVENUE					
Segment revenue – external sales	5,274,746	12,777,693	4,079,319	–	22,131,758
Segment operating profit (loss)	1,922,357	3,004,067	1,298,846	(312,128)	5,913,142
Finance costs	(280,431)	(1,132,872)	(3,153)	(10,526)	(1,426,982)
Share of results of joint ventures	214,147	–	–	–	214,147
Share of results of associates	105,615	(34,259)	1,674	–	73,030
Net gain on disposal of assets through disposal of interests in subsidiaries/disposal of interests in other subsidiaries and an associate	308,565	2,395,035	22,333	–	2,725,933
Segment profit (loss) before taxation	2,270,253	4,231,971	1,319,700	(322,654)	7,499,270
Income tax expense	(452,181)	(1,980,444)	(228,786)	2,041	(2,659,370)
Segment profit (loss) after taxation	1,818,072	2,251,527	1,090,914	(320,613)	4,839,900
Less: segment profit attributable to non-controlling interests	(420,796)	(1,499,948)	(16,126)	–	(1,936,870)
Segment profit (loss) after taxation attributable to owners of the Company	1,397,276	751,579	1,074,788	(320,613)	2,903,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

51. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2015

	Infrastructure facilities HK\$'000 (restated)	Real estate HK\$'000	Consumer products HK\$'000	Unallocated HK\$'000 (restated)	Consolidated HK\$'000 (restated)
REVENUE					
Segment revenue – external sales	4,348,739	11,455,908	3,889,035	–	19,693,682
Segment operating profit (loss)	1,834,639	2,585,050	1,254,899	(205,012)	5,469,576
Finance costs	(244,724)	(1,321,978)	(2,915)	(43,909)	(1,613,526)
Share of results of joint ventures	178,208	–	–	–	178,208
Share of results of associates	102,763	(26,461)	3,923	–	80,225
Net gain on disposal of interests in other subsidiaries and an associate	–	1,648,502	–	–	1,648,502
Segment profit (loss) before taxation	1,870,886	2,885,113	1,255,907	(248,921)	5,762,985
Income tax expense	(388,331)	(1,491,739)	(193,603)	2,648	(2,071,025)
Segment profit (loss) after taxation	1,482,555	1,393,374	1,062,304	(246,273)	3,691,960
Less: segment profit attributable to non-controlling interests	(345,889)	(505,407)	(13,900)	–	(865,196)
Segment profit (loss) after taxation attributable to owners of the Company	1,136,666	887,967	1,048,404	(246,273)	2,826,764

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

51. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

At 31 December 2016

	Infrastructure facilities HK\$'000	Real estate HK\$'000	Consumer products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Segment assets	42,239,453	99,269,022	7,011,509	2,728,191	151,248,175
Segment liabilities	14,914,247	64,397,622	859,800	8,603,989	88,775,658

At 31 December 2015

	Infrastructure facilities HK\$'000 (restated)	Real estate HK\$'000	Consumer products HK\$'000	Unallocated HK\$'000 (restated)	Consolidated HK\$'000 (restated)
Segment assets	32,541,210	98,589,637	6,786,259	6,783,587	144,700,693
Segment liabilities	8,721,349	67,393,771	765,268	12,527,055	89,407,443

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than corporate bank balances and cash, certain investments, certain interests in joint ventures and some other unallocated assets; and
- all liabilities are allocated to operating segments other than corporate tax liabilities, corporate bank borrowings, convertible bonds and some other unallocated liabilities.

Other segment information

2016

	Infrastructure facilities HK\$'000	Real estate HK\$'000	Consumer products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<i>Amounts included in the measurement of segment profit or loss or segment assets:</i>					
Additions to non-current assets (Note)	3,956,645	4,310,093	509,587	1,895	8,778,230
Depreciation and amortisation	1,026,168	163,811	196,827	1,488	1,388,294
Impairment loss on bad and doubtful debts	18,360	29,238	7,558	–	55,156
Impairment loss on properties held for sale	–	224,631	–	–	224,631
Interests in joint ventures	3,411,783	65,814	–	–	3,467,597
Interests in associates	1,722,670	1,564,245	91,780	–	3,378,695

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

51. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2015

	Infrastructure facilities HK\$'000 (restated)	Real estate HK\$'000	Consumer products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000 (restated)
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Amounts included in the measurement
of segment profit or loss or
segment assets:

Additions to non-current assets (Note)	2,292,274	63,388	119,795	1,630	2,477,087
Depreciation and amortisation	933,684	149,474	165,019	1,643	1,249,820
Impairment loss on bad and doubtful debts	8,117	37	9,343	–	17,497
Impairment loss on properties held for sale	–	31,911	–	–	31,911
Interests in joint ventures	3,269,078	65,718	–	–	3,334,796
Interests in associates	2,739,274	1,593,923	102,820	–	4,436,017

Note: Non-current assets excluded financial instruments, goodwill and deferred tax assets.

Geographical information

The Group's operations are mainly located in Hong Kong (place of domicile) and the PRC.

The Group's revenue from external customers by geographical location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers	
	2016 HK\$'000	2015 HK\$'000
The PRC	19,380,475	17,300,995
Asia areas, other than Hong Kong and the PRC	1,285,802	1,182,824
Hong Kong (place of domicile)	836,946	852,808
Other areas	628,535	357,055
	22,131,758	19,693,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

51. SEGMENT INFORMATION (Continued)

Geographical information (Continued)

	Non-current assets (Note)	
	2016 HK\$'000	2015 HK\$'000
The PRC	39,027,393	34,212,760
Hong Kong (place of domicile)	1,502,576	1,585,526
	40,529,969	35,798,286

Note: Non-current assets excluded interests in joint ventures and associates, financial instruments, goodwill 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.

52. 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 borrowings disclosed in Notes 34 and 35, 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, repurchase of shares as well as the issue of new debt or the redemption of existing debt.

53. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000 (restated)
Financial assets		
At fair value through profit or loss		
Held for trading	185,572	174,508
Designated as at FVTPL	10,131	223,106
Loans and receivables		
(including cash and cash equivalents)	53,050,934	43,654,898
Available-for-sale investments	1,201,348	1,239,132
Financial liabilities		
Amortised cost	54,326,580	61,854,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53. FINANCIAL INSTRUMENTS (Continued)

(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, pledged bank deposits, short-term bank deposits, bank balances and cash, trade and other payables, bank and other borrowings and convertible bonds. 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. The management monitors foreign currency exposure, especially in view of the current depreciation risk for Renminbi. The management will also consider hedging significant foreign currency exposure and adopting suitable measures where necessary in order to mitigate impacts due to the depreciation of the Renminbi to the Group.

The carrying amounts of the Group'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:

	Assets		Liabilities	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Renminbi (against Hong Kong dollar)	98,184	1,640,587	3,353	1,196,689
United States dollar (against Hong Kong dollar and Renminbi)	931,344	1,295,616	2,573,436	7,955,924
Hong Kong dollar (against Renminbi)	579,992	1,747,767	15,185	3,210,958

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 and bank and other borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in the functional currency of each group entity against the above foreign currency. 5% (2015: 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% (2015: 5%) increase in foreign currency rates. A positive (negative) number below indicates an increase (a decrease) in profit after taxation where the above foreign currency strengthens 5% against the functional currency of each group entity.

	2016 HK\$'000	2015 HK\$'000
Increase (decrease) in profit after taxation	60,563	(349,851)

(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 from/to certain fellow subsidiaries/associates, loan to a joint venture, amount due from/to Xuhui SASAC and entities controlled by Xuhui SASAC, fixed-rate bank and other borrowings and convertible bonds have exposure to fair value interest rate risk due to the fixed interest rate on these instruments. The Group'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.

In order to exercise prudent management against interest rate risks, the Group continues to review market trends against its business operations and financial position in order to arrange the most interest rate risk management tools.

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 (2015: 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 (2015: 50 basis point and 10 basis point) higher/lower for bank borrowings and bank deposits respectively, and all other were variables were held constant, the Group's profit after taxation for the year would decrease/increase by HK\$139,020,000 (2015: HK\$135,392,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate Bank Deposits and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53. 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 its listed investments classified as either available-for-sale investments or financial assets at FVTPL. The management strictly monitors this exposure by maintaining a portfolio of investments with different levels of risks. The Group's price risk is mainly concentrated on equity instruments quoted in the Stock Exchange and the Shanghai Stock Exchange. In addition, a special team has been appointed by the management to monitor the price risk and hedging against such risk exposures will be made should the need arises.

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% (2015: 5%) higher/lower:

- profit after taxation for the year would increase/decrease by HK\$8,199,000 (2015: HK\$13,516,000) as a result of the changes in fair value of financial assets at FVTPL; and
- investment revaluation reserve would increase/decrease by HK\$20,515,000 (2015: HK\$22,201,000) as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at 31 December 2016, the Group'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 as disclosed in Note 42.

The Group's principal financial assets are receivables under service concession arrangements, pledged bank deposits, short-term bank deposits, bank balances and cash, securities and debt investments and trade and other receivables.

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 according to the Group's accounting policy 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, all bank balances and cash, securities and debt investments of the Group must be placed and entered into with sound and reputable financial institutions. Strict requirements and restrictions in relation to the outstanding amount and credit ratings on securities and debt investments to be held are followed in order to minimise the Group's credit risk exposures.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's concentration of credit risk by geographical locations of customers are mainly in the PRC and Hong Kong which accounted for 91% (2015: 85%) and 9% (2015: 15%), respectively, of the trade receivables as at 31 December 2016.

The Group's credit risk on bank balances and bank deposits is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk in relation to amounts due from associates which account for 47% (2015: 40%) of other receivables. These counterparties have a sound financial background at the end of the reporting period by reference to their financial position and business prospects. The Group's credit risk position is monitored closely by the management.

Liquidity risk

The Group'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 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.

	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 31.12.2016 HK\$'000
2016							
Non-interest bearing	-	1,740,465	974,501	4,333,183	1,096,221	8,144,370	8,144,371
Fixed interest rate instruments	4.90	18,819	35,817	2,083,652	2,766,331	4,904,619	4,541,353
Variable interest rate instruments	3.83	136,680	258,448	7,708,091	37,148,344	45,251,563	41,640,856
		1,895,964	1,268,766	14,124,926	41,010,896	58,300,552	54,326,580
Financial guarantee contracts		6,868,931	-	-	-	6,868,931	-

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000 (restated)	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000 (restated)	Carrying amount at 31.12.2016 HK\$'000 (restated)
2015							
Non-interest bearing	-	3,629,064	1,709,052	7,493,762	406,177	13,238,055	13,238,055
Fixed interest rate instruments	4.44	46,305	89,622	9,021,019	4,599,052	13,755,998	13,113,454
Variable interest rate instruments	4.23	128,210	249,205	6,920,611	30,968,298	38,266,324	35,503,371
		3,803,579	2,047,879	23,435,392	35,973,527	65,260,377	61,854,880
Financial guarantee contracts		3,847,587	-	-	-	3,847,587	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group 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 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.

(c) Fair value measurement of financial instruments

Other than the financial assets and financial liabilities carried at fair value as detailed in the following table and the available-for-sale investments carried at cost less impairment, the directors of the Company consider that the carrying amounts of trade and other receivables, pledged bank deposits, short-term bank deposits, bank balances and cash, trade and other payables and bank and other borrowings that are recorded at amortised cost in the consolidated financial statements approximate their fair values, which are all categorised under level 3 for fair value measurement. The fair values of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurement of financial instruments (Continued)

Fair value of financial assets that are measured at fair value on a recurring basis

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable input
	31.12.2016 HK\$'000	31.12.2015 HK\$'000			
Available-for-sale investments					
Listed equity securities	410,300	440,010	Level 1	Quoted bid price in an active market	N/A
Investments held-for-trading					
Listed equity securities	185,572	174,508	Level 1	Quoted bid prices in an active market	N/A
Financial asset designated as at FVTPL					
Structured deposits					
– Exchange rate linked notes	–	73,414	Level 2	Quoted prices in the over-the-counter markets	N/A
– Equity linked notes	–	149,692	Level 2	Quoted prices in the over-the-counter markets	N/A
Corporate bond	10,131	–	Level 2	Quoted prices in the over-the-counter market	N/A

There was no transfer amongst Levels 1, 2 and 3 in both years.

54. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the following events took place:

- (i) In January 2017, the Company entered into a subscription agreement with SI Environment, pursuant to which the Company has agreed to subscribe for, and SI Environment has agreed to allot and issue an aggregate of 350,000,000 new shares in SI Environment at a placement price of S\$0.63 per placement share. Upon completion, the Company will indirectly hold an aggregate of 1,197,688,226 shares in SI Environment, representing approximately 45.95% of SI Environment's enlarged share capital. This will be accounted for as an equity transaction.
- (ii) In February 2017, the Company through its indirect wholly owned subsidiary (the "Subscriber"), entered into a subscription agreement with Canvest Environmental Protection Group Company Limited ("Canvest"), a company listed on the Stock Exchange, pursuant to which the Subscriber conditionally agreed to subscribe, and Canvest conditionally agreed to issue 300,000,000 shares of Canvest at a price of HK\$3.5 per share. Up to the date of approving these consolidated financial statements, this subscription is completed and Canvest will be accounted for as an associate using equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK\$'000	2015 HK\$'000
Non-Current Assets		
Property, plant and equipment	3,173	3,309
Investments in subsidiaries	735,055	735,055
	738,228	738,364
Current Assets		
Deposits, prepayments and other receivables	11,441	53,305
Amounts due from subsidiaries	31,567,853	30,471,020
Short term bank deposit	27,997	1,194,172
Bank balances and cash	1,263,246	2,073,237
	32,870,537	33,791,734
Current Liabilities		
Other payables and accrued charges	30,060	64,825
Amounts due to subsidiaries	3,789,522	476,202
Taxation payable	180,153	186,649
Bank borrowings	–	1,194,172
	3,999,735	1,921,848
Net Current Assets	28,870,802	31,869,886
Total Assets less Current Liabilities	29,609,030	32,608,250
Capital and Reserves		
Share capital	13,633,449	13,615,889
Share premium and reserves	15,975,581	15,354,646
Total Equity	29,609,030	28,970,535
Non-Current Liability		
Amount due to a subsidiary	–	3,637,715
Total Equity and Non-Current Liability	29,609,030	32,608,250



Zhou Jun
Chief Executive Officer



Xu Bo
Deputy CEO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

56. SHARE PREMIUM AND RESERVES OF THE COMPANY

	Share options reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2015	163,778	185,214	1,137,728	13,150,949	14,637,669
Profit for the year	–	–	–	1,617,138	1,617,138
Issue of shares upon exercise of share options	(6,637)	–	–	–	(6,637)
Lapse of share options	(129,258)	–	–	129,258	–
Shares repurchase	–	–	–	(9,906)	(9,906)
Repurchase of CB 2018 (Note 35)	–	(9,486)	–	5,608	(3,878)
Dividends paid (Note 13)	–	–	–	(879,740)	(879,740)
At 31 December 2015	27,883	175,728	1,137,728	14,013,307	15,354,646
Profit for the year	–	–	–	1,676,065	1,676,065
Issue of shares upon exercise of share options	(1,323)	–	–	–	(1,323)
Lapse of share options	(24,632)	–	–	24,632	–
Redemption of CB 2018 (Note 35)	–	(100,848)	–	–	(100,848)
Repurchase of CB 2018 (Note 35)	–	(3,169)	–	38,663	35,494
Dividends paid (Note 13)	–	–	–	(988,453)	(988,453)
At 31 December 2016	1,928	71,711	1,137,728	14,764,214	15,975,581

Notes:

- (i) The Company's reserves available for distribution to shareholders as at 31 December 2016 comprised of retained profits of approximately HK\$14,764 million (2015: HK\$14,013 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.

FINANCIAL SUMMARY

	Year ended 31 December				2016 HK\$'000
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000 (restated)	
RESULTS					
Revenue	19,286,910	21,567,724	21,333,017	19,693,682	22,131,758
Profit before taxation	5,947,741	4,833,753	6,990,055	5,762,985	7,499,270
Income tax expense	(1,621,251)	(1,389,533)	(2,632,812)	(2,071,025)	(2,659,370)
Profit for the year	4,326,490	3,444,220	4,357,243	3,691,960	4,839,900
Attributable to					
– Owners of the Company	3,438,210	2,702,418	3,096,256	2,826,764	2,903,030
– Non-controlling interests	888,280	741,802	1,260,987	865,196	1,936,870
	4,326,490	3,444,220	4,357,243	3,691,960	4,839,900
	HK\$	HK\$	HK\$	HK\$	HK\$
Earnings per share					
– Basic	3.184	2.500	2.860	2.605	2.673
– Diluted	3.182	2.374	2.657	2.500	2.639

	As at 31 December				2016 HK\$'000
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000 (restated)	
ASSETS AND LIABILITIES					
Total assets	115,313,011	122,410,025	140,014,121	144,700,693	151,248,175
Total liabilities	(67,073,978)	(70,030,211)	(86,538,870)	(89,407,443)	(88,775,658)
	48,239,033	52,379,814	53,475,251	55,293,250	62,472,517
Equity attributable to owners of the Company	32,409,489	34,946,024	35,271,483	36,031,634	36,916,289
Non-controlling interests	15,829,544	17,433,790	18,203,768	19,261,616	25,556,228
	48,239,033	52,379,814	53,475,251	55,293,250	62,472,517

Note: The results for the year ended 31 December 2015 and the assets and liabilities as of 31 December 2014 and 31 December 2015 are extracted from the 2015 annual report and adjusted for the inclusion of Yield Express on a merger basis (see Note 2 to the consolidated financial statements).

PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of the Group's major properties held for investment purposes as at 31 December 2016 are as follows:

Location	Term of lease	Type of use	Group's interest
1. ShanghaiMart (上海世貿商城) No. 2299 Yanan Road West, Changning District, Shanghai, the PRC	Held under a land use right for a term expiring on 20 October 2049	Commercial, Office and Expo	35.68%
2. Urban Development International Tower (城開國際大廈) No. 355 Hongqiao Road, Xuhui District, Shanghai, the PRC	Held under a land use right for a term expiring on 7 October 2053	Commercial	41.28%
3. Villas of Contemporary Art Villas (當代藝墅) No. 1081 Gudai Road, Minhang District, Shanghai, the PRC	Held under a land use right for a term expiring on 14 March 2063	Residential	69.96%
4. YOYO Tower (城開YOYO) No. 111 and 123 Tianyaoqiao Road, Xuhui District, Shanghai, the PRC	Held under a land use right with an unspecified term	Commercial	41.28%
5. Phase 2 of Shanghai Youth City (上海青年城) No. 1519 Husong Road, Jiuting Town, Songjiang District, Shanghai, the PRC	Held under a land use right for a term expiring on 8 July 2055	Commercial	69.96%
6. 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	69.96%
7. The retail and basement car park portion of Changning United 88 (長寧八八中心) No. 88 Changning Road, Changning District, Shanghai, the PRC	Held under a land use right for a term expiring on 14 August 2072	Composite	48.60%
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	43.74%
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	48.60%
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 8 November 2050	Commercial	48.60%
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	48.60%



PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Location	Term of lease	Type of use	Group's interest
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	48.60%
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	48.60%

GLOSSARY OF TERMS

Term used	Brief description
Bridge Company	Ningbo Hangzhou Bay Bridge Development Co., Ltd.
Canvest Environmental	Canvest Environmental Protection Group Company Limited
Companies Ordinance	Companies Ordinance (Chapter 622 of the laws of Hong Kong)
Company	Shanghai Industrial Holdings Limited (HKSE stock code: 363)
Director(s)	director(s) of the Company
Fudan Water	Shanghai Fudan Water Engineering and Technology Co., Ltd.
Galaxy Energy	SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd.
General Water of China	General Water of China Co., Ltd.
Green Carbon Fund	Urban Development Green Carbon (Tianjin) Equity Investment Fund (Limited Partnership)
Group	the Company and its subsidiaries
Hu-Ning Expressway	Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd.
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Longjiang Environmental	Longjiang Environmental Protection Group Co., Ltd.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules
Nanyang Tobacco	Nanyang Brothers Tobacco Company, Limited
Net Business Profit	Net profit excluding net corporate expenses
Power China Real Estate	Power China Real Estate Group Ltd.
PRC	The People's Republic of China
Ranhill Water	Ranhill Water (Hong Kong) Limited
SFO	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
SGX	Singapore Stock Exchange
Shanghai Electric Power	Shanghai Electric Power Construction Co., Ltd.
Shanghai Galaxy	Shanghai Galaxy Investment Co., Ltd.
Shanghai Pharmaceuticals	Shanghai Pharmaceuticals Holding Co., Ltd. (SSE stock code: 601607; HKSE stock code: 2607)
Shanghai Urban Development	Shanghai Urban Development (Holdings) Co., Ltd.



GLOSSARY OF TERMS

Term used	Brief description
SI Development	Shanghai Industrial Development Co., Ltd. (SSE stock code: 600748)
SI Environment	SIIC Environment Holdings Ltd. (SGX stock code: BHK)
SI Environment Scheme	A share option scheme adopted by SI Environment at the special general meeting held on 27 April 2012
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 at the extraordinary general meeting held on 12 December 2002. Such scheme was expired on 11 December 2012
SI Urban Development New Scheme	A new share option scheme adopted by SI Urban Development at the annual general meeting held on 16 May 2013
SIHL Scheme	A share option scheme adopted by the Company 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 at the extraordinary general meeting held on 25 May 2012
SIIC	Shanghai Industrial Investment (Holdings) Company Limited
SIIC-Longchuang	Shanghai SIIC-Long Chuang Smarter Energy Technology Co., Ltd.
SSE	Shanghai Stock Exchange
Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited
Sun Hung Kei Properties	Sun Hung Kei Properties Limited
Wing Fat Printing	The Wing Fat Printing Company, Limited



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