粵海投資有限公司
GUANGDONG INVESTMENT LIMITED

Stock Code : 0270

CONTENTS

CORPORATE INFORMATION

as at 29 March 2017

Board of Directors

Executive Directors

Mr. HUANG Xiaofeng *(Chairman)*
Mr. WEN Yinheng *(Managing Director)*
Mrs. HO LAM Lai Ping, Theresa *(Company Secretary)*
Mr. TSANG Hon Nam *(Chief Financial Officer)*

Non-Executive Directors

Mr. CAI Yong
Mr. WU Jianguo
Mr. ZHANG Hui
Ms. ZHAO Chunxiao
Mr. LAN Runing
Mr. LI Wai Keung

Independent Non-Executive Directors

Dr. CHAN Cho Chak, John, *GBS, JP*
Dr. the Honourable LI Kwok Po, David, *GBM, GBS, OBE, JP*
Mr. FUNG Daniel Richard, *SBS, QC, SC, JP*
Dr. the Honourable CHENG Mo Chi, Moses, *GBM, GBS, OBE, JP*
Mr. WU Ting Yuk, Anthony,
Standing Committee Member of CPPCC National Committee, GBS, JP

Audit Committee

Dr. the Honourable LI Kwok Po, David *(Committee Chairman)*
Dr. CHAN Cho Chak, John
Mr. FUNG Daniel Richard
Dr. the Honourable CHENG Mo Chi, Moses
Mr. WU Ting Yuk, Anthony

Remuneration Committee

Dr. CHAN Cho Chak, John *(Committee Chairman)*
Dr. the Honourable LI Kwok Po, David
Mr. FUNG Daniel Richard
Dr. the Honourable CHENG Mo Chi, Moses
Mr. WU Ting Yuk, Anthony

Nomination Committee

Mr. HUANG Xiaofeng *(Committee Chairman)*
Dr. CHAN Cho Chak, John
Dr. the Honourable LI Kwok Po, David
Mr. FUNG Daniel Richard
Dr. the Honourable CHENG Mo Chi, Moses
Mr. WU Ting Yuk, Anthony

Company Secretary

Mrs. HO LAM Lai Ping, Theresa

Auditors

Ernst & Young

Principal Bankers

Bank of China (Hong Kong) Limited
China CITIC Bank, Guangzhou Branch
China Merchants Bank
Chong Hing Bank
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China, Shenzhen Branch
Malayan Banking Berhad
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
OCBC Wing Hang Bank Limited

Registered Office

28th and 29th Floors
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Telephone	:	(852) 2860 4368
Facsimile	:	(852) 2528 4386
Email	:	ir@gdi.com.hk
Website	:	www.gdi.com.hk

Share Registrar

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Customer Service Hotline: (852) 2980 1333

Share Information

Place of Listing	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	0270
Board Lot	2,000 shares
Financial Year End	31 December

Shareholders' Calendar

Annual General Meeting ("AGM")
23 June 2017 11:00 a.m.

Final Dividend
HK 30.0 cents per ordinary share, payable on 20 July 2017

Last Share Registration Date

Entitlement to attend and vote at AGM	19 June 2017, by 4:30 p.m.
Entitlement to Final Dividend	28 June 2017, by 4:30 p.m.

Closure of Register of Members

Final Dividend	29 June 2017

THE GROUP'S PRINCIPAL BUSINESSES

29 March 2017

Water Resources

- **96.03%** GH Water Supply (Holdings) Limited
  - **99%** Guangdong Yue Gang Water Supply Company Limited
- **100%** Guangdong Water Group (H.K.) Limited
  - **30%** Jianghe Gangwu Water (Changzhou) Company Limited▲
  - **43.86%** Dongguan Qingxi Guangdong Water Co., Ltd.▲
  - **49%** Guangzhou Nansha GDH Water Co., Ltd.▲
  - **70%** Suixi Guangdong Water Company Limited▲
  - **100%** Xingning Yuehai Huanbao Co., Ltd.▲
  - **80%** Shanwei Yuehai Huanbao Co., Ltd.▲
  - **70%** Fengshun Guangdong Water Co., Limited▲
  - **70%** Hainan Danzhou Tap Water Company Limited▲
  - **70%** Meizhou Guangdong Water Co., Ltd.▲
  - **100%** China City Water Supply Investment (Hong Kong) Limited
    - **51%** Wuzhou Yuehai Jianghe Water Company Limited▲
    - **60%** Yizheng Gangyi Water Supply Company Limited▲
    - **60%** Gaoyou Gangyou Water Supply Company Limited▲
    - **70%** Zhaoqing HZ GDH Water Co., Ltd.
    - **70%** Baoying Yuehai Water Company Limited▲
    - **86.96%** Wuzhou Yuehai Huanbao Fazhan Company Limited▲
  - **90.1%** Dongguan Changping Jinsheng Water Co., Ltd.▲
  - **100%** Dongguan Daojiao Hongfa Sewage Treatment Co., Ltd.▲
  - **100%** Wuhua Yuehai Huanbao Co., Ltd.▲
    - **54.29%** Kaiping Guangdong Water Co., Ltd.▲
      - **100%** Kaiping Yuehai Sewage Treatment Co., Ltd.▲
    - **100%** Wuhua Yuehai Qingyuan Huanbao Co., Ltd.▲
- **76.2%** Hainan Danzhou Guangdong Water Company Limited▲
- **51%** Gaozhou Guangdong Water Company Limited▲

Property Investment and Development

- **100%** Global Head Developments Limited *(Guangdong Investment Tower properties)*
- **100%** Guangdong Properties Holdings Limited *(Guangdong Group Building properties)*
- **76.02%** Tianjin Teem Shopping Center Co., Ltd. *(Tianjin Teem Shopping Mall project)*
- **76.13%** Guangdong Teem (Holdings) Limited▲ *(Teem Plaza)*
  - **60%** Guangzhou Tianhecheng Investment Co., Ltd.▲
    - **68%** Guangzhou City Wanye Investment Management Company Limited▲ *(Panyu Wanbo CBD project)*

GDH 粵海投資有限公司
GUANGDONG INVESTMENT LIMITED

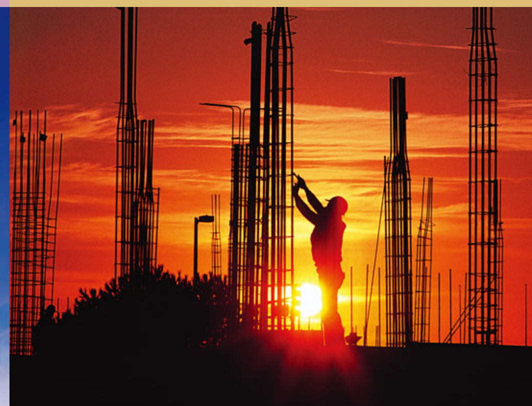
Department Store

- **85.20%** Guangdong Teemall Department Stores Ltd.▲

Hotel Ownership, Operation and Management

- **76.13%** Sheraton Guangzhou Hotel
- **100%** Guangdong (International) Hotel Management Holdings Limited
  - **100%** Fill Success Investments Limited *(Wharney Guangdong Hotel (Hong Kong))*
  - **100%** Guangdong Hotel Limited *(Guangdong Hotel (Hong Kong))*
  - **100%** Guangdong Hotel (Zhu Hai)▲
  - **99%** Shenzhen Guangdong Hotel Enterprise Ltd.▲ *(Guangdong Hotel (Shen Zhen))*

Energy Projects, Road and Bridge



- **100%** Guangxi Xinchangjiang Gonglu Company Limited▲ *(Xingliu Expressway)*
- **100%** Dongguan Yuehai Yinping Development and Construction Limited▲
- **71.25%** Zhongshan Thermal Power Co., Ltd.▲ *(Zhongshan Power Plant)*
- **49%** Guangdong Power Investment Limited
  - **25%** Guangdong Yuejia Electric Power Co., Ltd *(Meixian Power Plant)*
- **25%** Guangdong Yudean Jinghai Power Generation Co., Ltd. *(Yudean Jinghai Power Plant)*

Notes:

(i) Projects of the Group are shown in italics and do not constitute part of the individual company's or joint venture's name.

(ii) The English name of the entity marked with a "▲" is a translation of its Chinese name, and is included herein and in other sections of this Annual Report for identification purposes only. In the event of any inconsistency, the Chinese name shall prevail.

FINANCIAL HIGHLIGHTS

Financial Highlights for the year ended 31 December

	2016 HK$'000	2015 HK$'000	Changes %
Revenue	**10,464,202**	9,171,959	14.1
Profit for the year attributable to owners of the Company	**4,212,037**	3,905,277	7.9
Earnings per share — Basic	**HK 67.25 cents**	HK 62.45 cents	7.7
Dividends per share			
Interim	**HK 12.00 cents**	HK 10.00 cents	
Proposed final	**HK 30.00 cents**	HK 24.00 cents	
	HK 42.00 cents	HK 34.00 cents	23.5
EBITDA	**7,060,974**	6,181,654	14.2
Owners' equity	**32,221,968**	31,472,144	2.4
Total assets	**52,130,357**	54,109,990	-3.7
Net financial borrowings[7]	**–**	–	N/A

Key Ratios (as at 31 December)

	2016	2015
Gearing[1]	**N/A**	N/A
Interest cover[2]	**54.47X**	45.42X
Liquidity[3]	**2.85X**	2.85X
Return on average owners' equity[4]	**13.23%**	12.65%
Post-tax return on average assets[5]	**8.76%**	8.43%
Dividend payout ratio[6]	**62.45%**	54.44%

Share Information (as at 31 December)

	2016	2015
Number of ordinary shares in issue	**6,265m**	6,255m
Market capitalisation	**HK$64,153m**	HK$66,680m
Closing market price per share	**HK$10.24**	HK$10.98
Basic earnings per share	**HK 67.25 cents**	HK 62.45 cents
Diluted earnings per share	**HK 67.20 cents**	HK 62.35 cents
Net asset value[8] per share	**HK$5.14**	HK$5.03

Notes:

1. $\dfrac{\text{Net Financial indebtedness}}{\text{Net asset value}^{8}}$

2. $\dfrac{\text{EBITDA}}{\text{Finance costs}}$

3. $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

4. $\dfrac{\text{Profit for the year attributable to owners}}{(\text{opening equity}^{8} + \text{closing equity}^{8})/2}$

5. $\dfrac{\text{Profit for the year}}{(\text{opening total assets} + \text{closing total assets})/2}$

6. $\dfrac{\text{Dividends per share}}{\text{Basic earnings per share}}$

7. Financial borrowings – cash and cash equivalents

8. Excluded non-controlling interests

Analysis of gross financial borrowings (as at 31 December)

	2016 **HK$'000**	2015 HK$'000
Loans maturity profile		
Within 1 year	**1,130,338**	674,436
In the 2nd year	**4,411,370**	2,091,145
In the 3rd to 5th years, inclusive	**430,806**	5,308,466
Over 5 years	**164,504**	325,549
	6,137,018	8,399,596
Currency	**%**	%
Hong Kong dollars	**96.5**	91.8
Renminbi	**3.5**	8.2
Interest rate	**%**	%
Floating	**85.8**	87.9
Fixed	**0.8**	0.1
Non-interest bearing	**13.4**	12.0

Source of financing (as at 31 December 2016)

	Available and committed %	**Utilised %**
Interest-bearing bank and other borrowings	**86.6**	**86.6**
Non-interest-bearing borrowings	**13.4**	**13.4**
	100.0	**100.0**

FINANCIAL HIGHLIGHTS (CONTINUED)

Analysis of the Group's Businesses

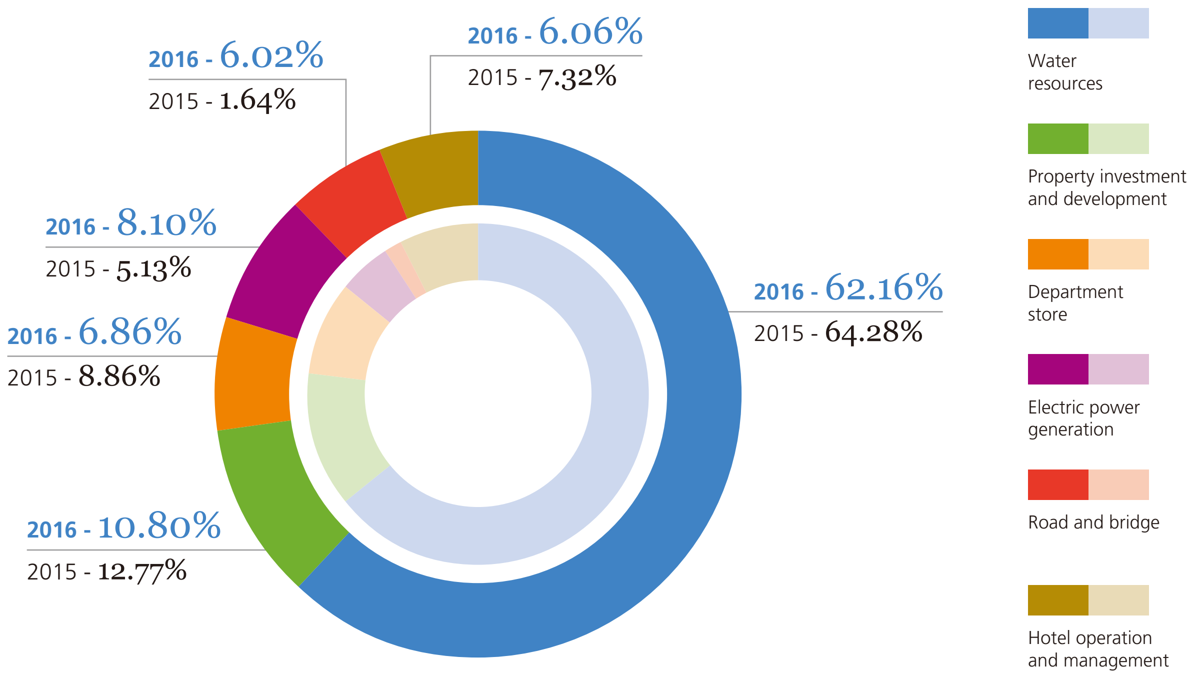
Year ended 31 December 2016

	Revenue HK$'000	%	Segment results HK$'000	%
By Activity:				
Water resources	6,505,311	62.16	3,505,177	63.01
Property investment and development	1,130,392	10.80	1,065,694	19.16
Department store	717,339	6.86	185,579	3.34
Electric power generation	847,293	8.10	323,001	5.81
Road and bridge	629,748	6.02	403,454	7.25
Hotel operation and management	634,119	6.06	79,312	1.43
Others	–	–	(301,336)	–
	10,464,202	100.00	5,260,881	100.00
By Geographical Area:				
Mainland China	10,220,143	97.67		
Hong Kong	244,059	2.33		
	10,464,202	100.00		

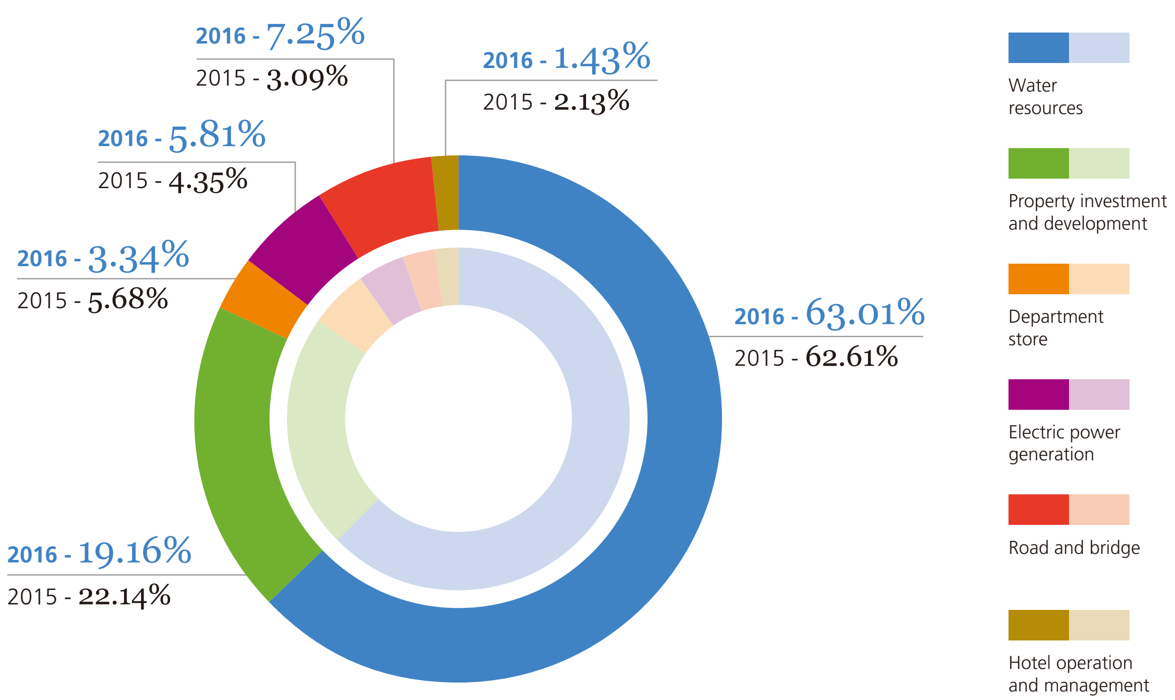
Year ended 31 December 2015

	Revenue HK$'000	%	Segment results HK$'000	%
By Activity:				
Water resources	5,895,616	64.28	2,936,389	62.61
Property investment and development	1,171,425	12.77	1,038,575	22.14
Department store	812,552	8.86	266,360	5.68
Electric power generation	470,684	5.13	204,225	4.35
Road and bridge	150,022	1.64	144,842	3.09
Hotel operation and management	671,660	7.32	100,130	2.13
Others	–	–	(290,248)	–
	9,171,959	100.00	4,400,273	100.00
By Geographical Area:				
Mainland China	8,917,147	97.22		
Hong Kong	254,812	2.78		
	9,171,959	100.00		

Revenue by Operating Segments

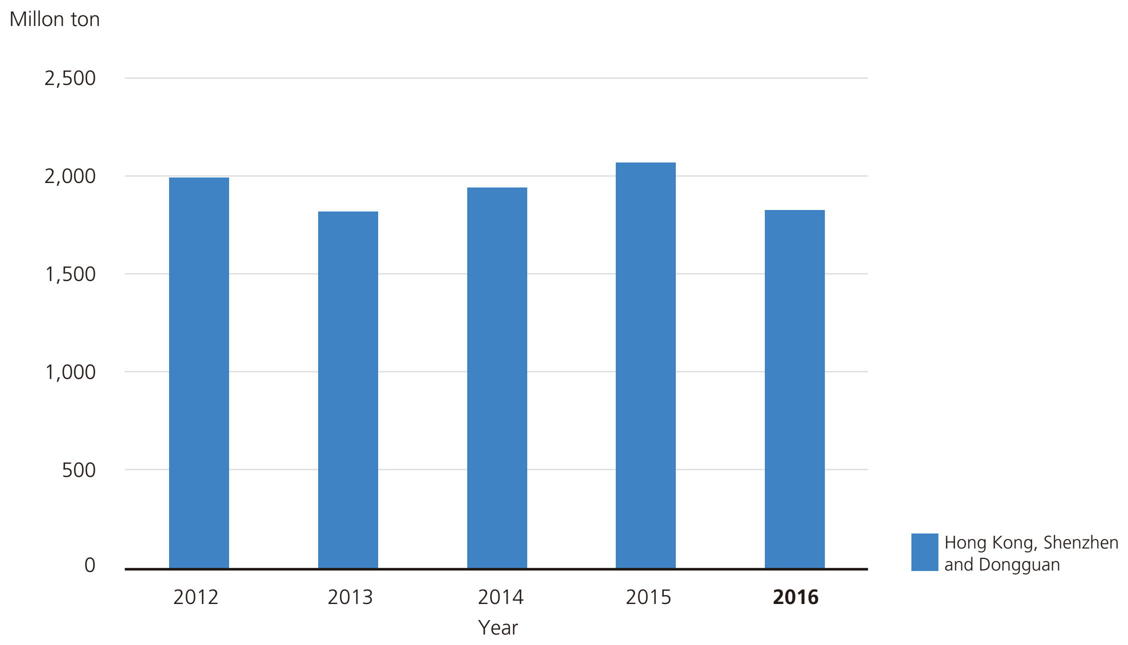


Segments Results by Operating Segments

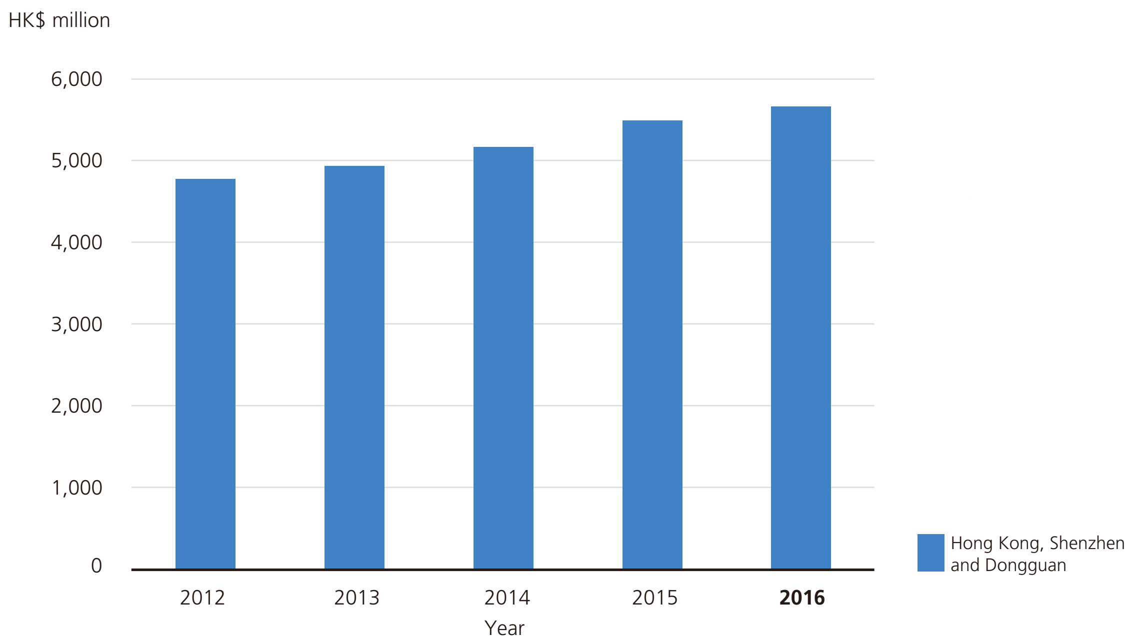


FINANCIAL HIGHLIGHTS (CONTINUED)

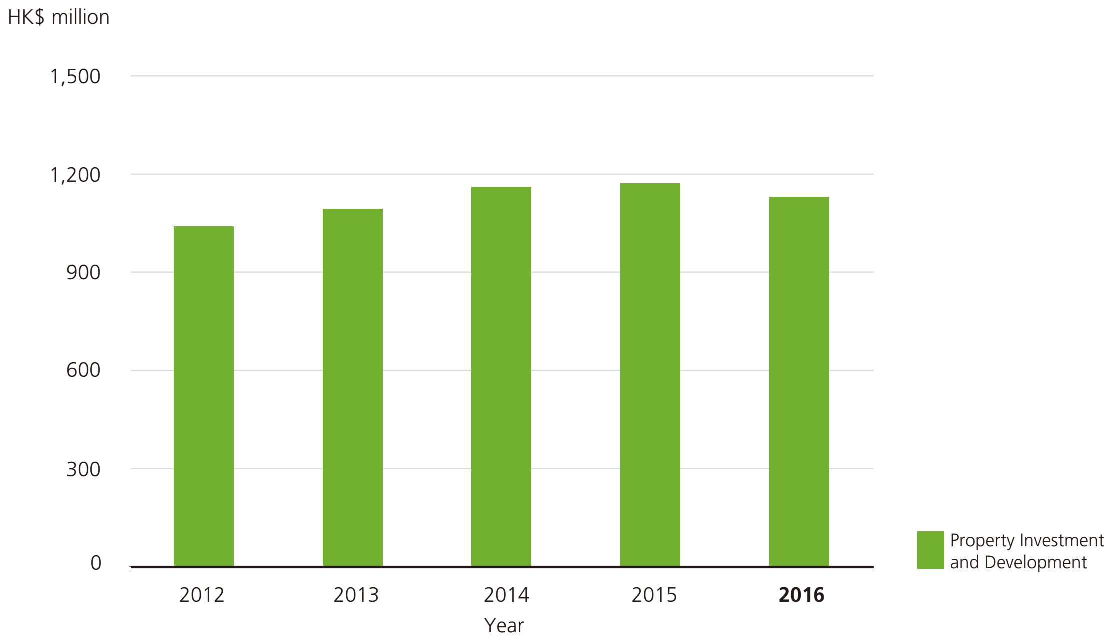
Water Distribution – Annual Volume



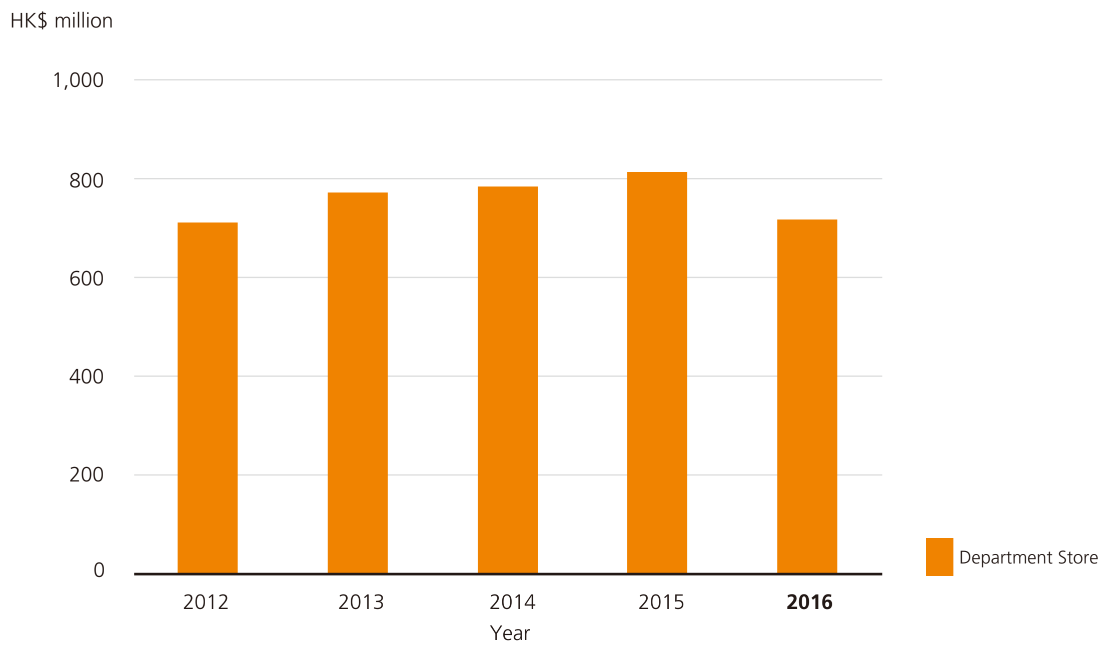
Water Distribution – Annual Revenue



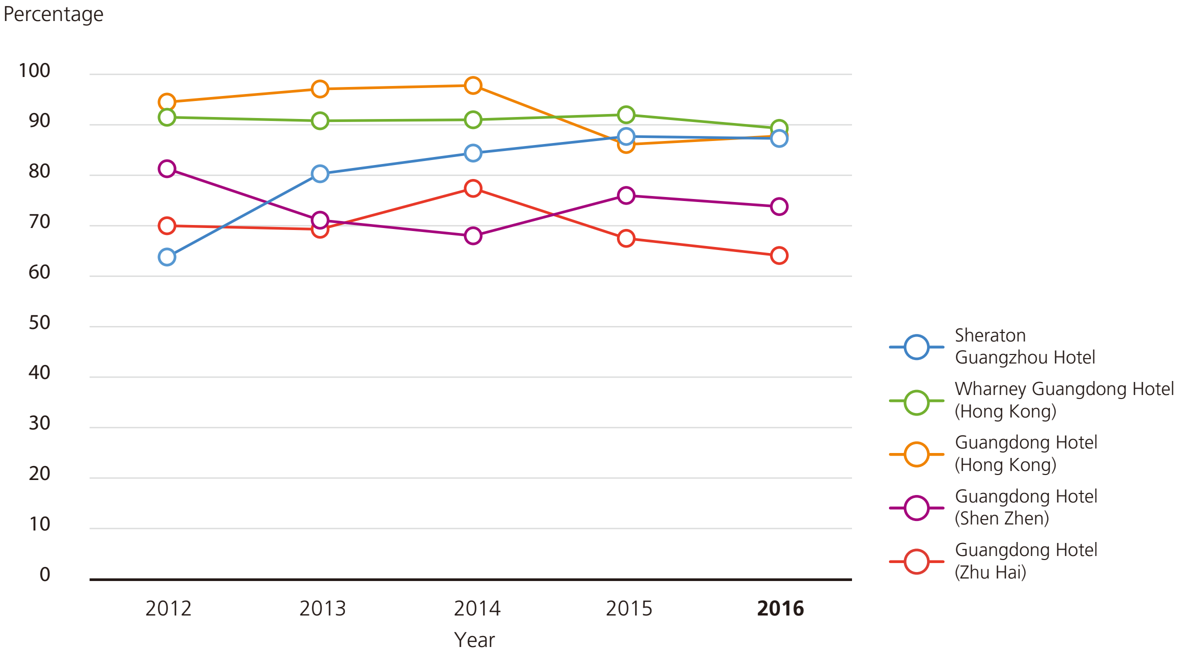
Property Investment and Development – Annual Revenue



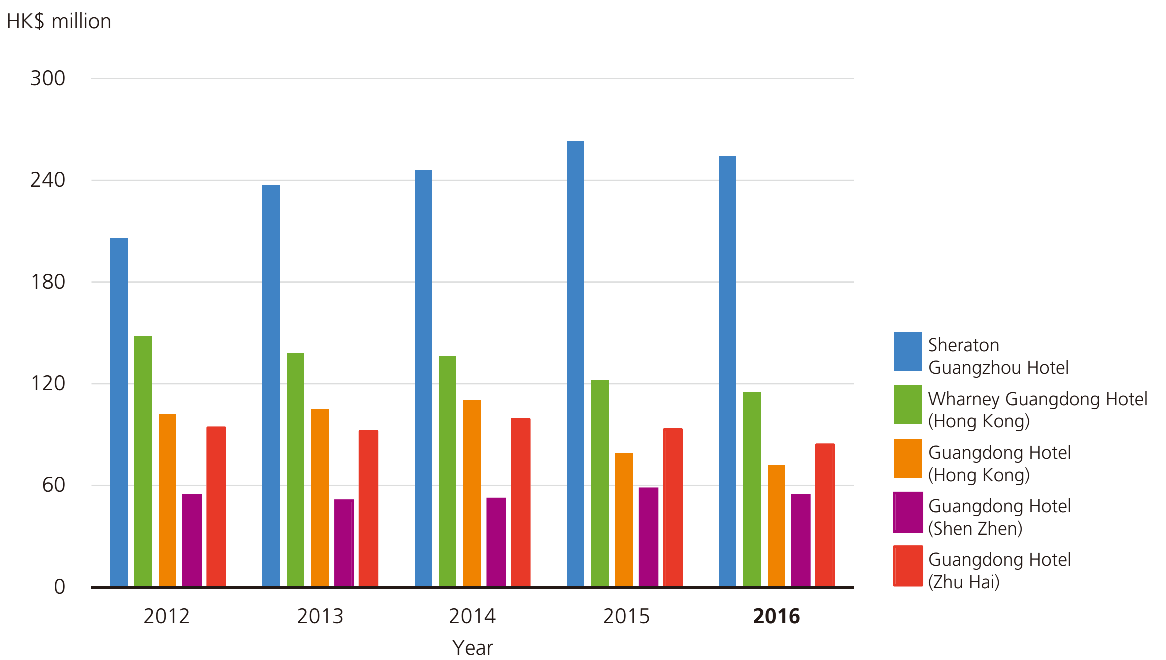
Department Store – Annual Revenue



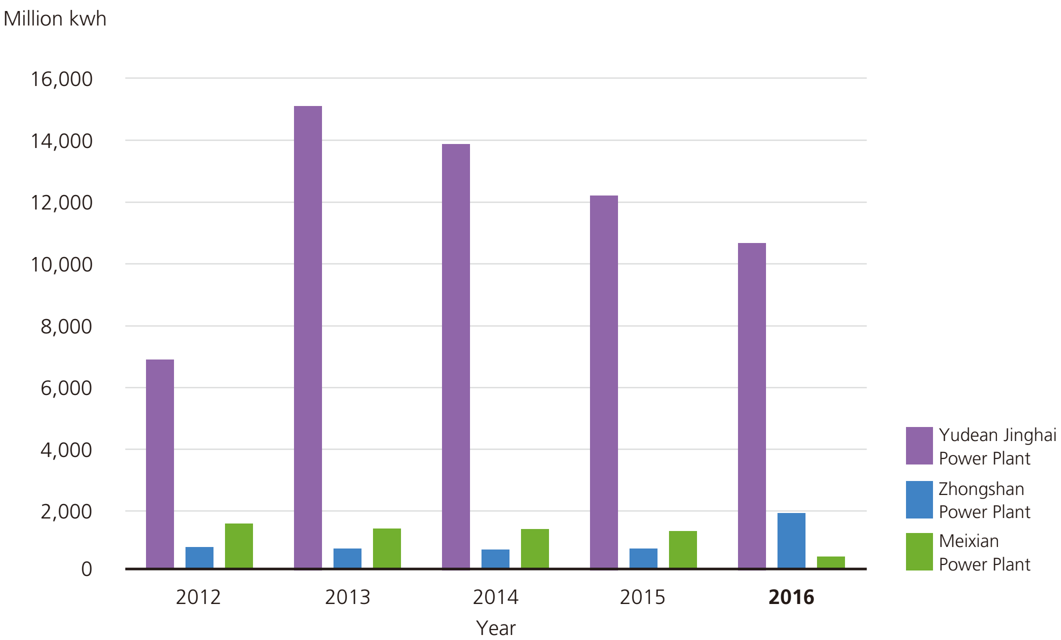
Hotel Operation and Management – Occupancy Rate



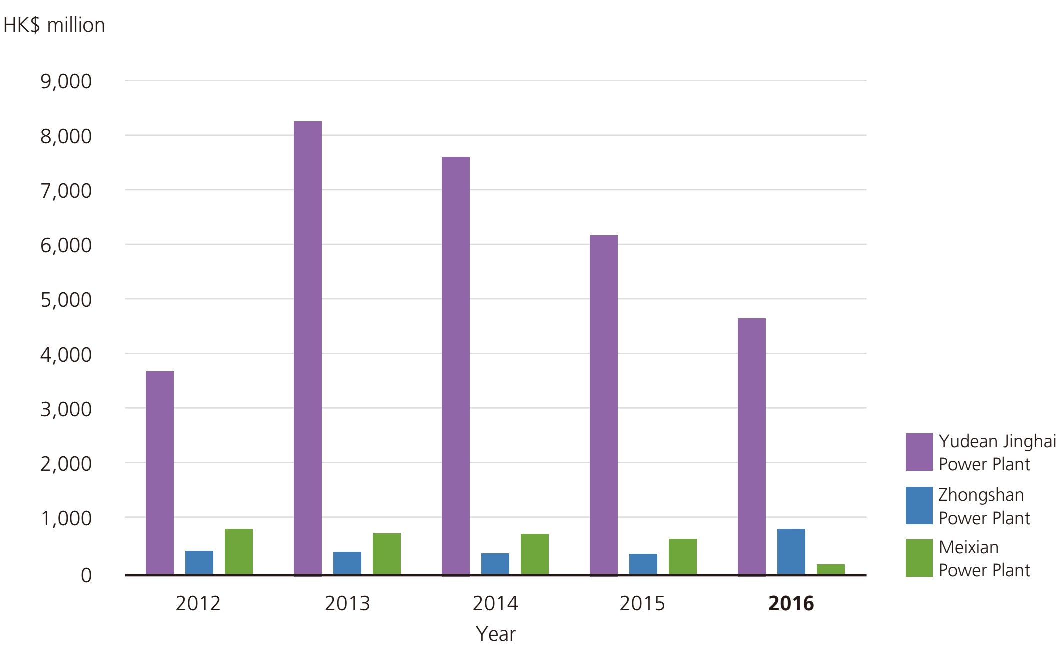
Hotel Operation and Management – Annual Revenue



Electric Power Generation – Annual Sales of Electricity



Electric Power Generation – Annual Revenue



CHAIRMAN'S STATEMENT

HUANG Xiaofeng
Chairman

Results

I am pleased to report to the shareholders our results of 2016. The Group's consolidated profit attributable to shareholders for 2016 amounted to HK$4,212 million (2015: HK$3,905 million), increased by 7.9% over 2015. Basic earnings per share increased by 7.7% over 2015, to HK 67.25 cents (2015: HK 62.45 cents).

Dividend

The Group uses its best endeavours to maximise the shareholders' interests with a view to creating a long-term value for the stakeholders and considers that dividend forms an integral part of shareholders' return. The Company has maintained a stable dividend distribution policy over the years. The Board recommends the payment of a final dividend of HK 30.0 cents per share for 2016. Aggregating such dividend with the interim dividend of HK 12.0 cents per share paid in 2016, the total dividend for the entire year will be HK 42.0 cents (2015: HK 34.0 cents) per share. The said 2016 final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on 20 July 2017.

Review

In 2016, global economic growth momentum remained subdued, the occurrence of "black swan" events such as Brexit and U.S. presidential election result further exacerbated uncertainties in the global economy in the post-financial crisis period. Although Chinese economy remained stable, the combined effects of ongoing structural adjustments, economic transition and upgrades, pressures on energy conservation and emission reduction, as well as RMB exchange rate volatility led to certain challenges and shocks to the economic fundamentals. Faced with complex and austere operating environment, the Group embraced its sustainable development strategy of "make progress while ensuring stability" and focused on enhancing quality and profitability of its business development. On the one hand, the Group consolidated and strengthened operational efficiency and competitive advantages of its core businesses while further improving its corporate governance and internal control mechanism. On the other hand, the Group seized market opportunities and intensified efforts to expand its core business segments.

Among the Group's business segments, water resources segment continued its capacity expansion and margin improvement, accelerated pace of new project acquisition, further strengthened its ability to safeguard water quality. Rental income from property investment and development segment saw stable growth, primarily benefiting from our shopping malls and office space located at prime locations in well-developed business districts and resilient market demand. Profit from hotel operation and management segment was slightly lower as the Group continued to battle unfavourable business conditions brought on by Hong Kong's sluggish tourism industry as tourist number continued to decline. Profit from department store operation declined due to consumer fatigue and impacts from diversification of retail channels. The performance of other infrastructure segment was in line with expectation. Two 300 MW combined heat and power generators commenced operation as scheduled in 2016, effectively alleviating negative impacts from the electricity pricing reform. Benefiting from regional economic development, our road and bridge segment achieved stable growth in both traffic flow and operating results. The Group has also closely monitored foreign exchange risks and utilized various strategies to minimize the Group's currency risk exposure.

Prospects

Looking ahead to 2017, policy uncertainty of major economies together with the rise of global trade protectionism may hamper global economic growth momentum. China could face further growth slowdown due to combined effects of domestic structural adjustments and uncertain external economic conditions. Faced with complex political and economic circumstances, the Group will build on its solid foundation, put greater emphasis on prudent business operation and sustainable development, and strengthen the Group's risk management in order to create long-term value for its stakeholders.

The Group will continue its investments in water resources management, property investment and development as well as infrastructure segments. The Group will continue to strengthen its core businesses while closely monitoring potential public-private-partnership projects as well as other market opportunities in our relevant business segments. The Group seeks to expand its international horizon, optimize its asset structure, grasp market opportunities arising from the "One Belt One Road" initiative and progressively explore possible execution approach. The Group strives to increase profit growth points and further enhance the Company's financial performance and create long-term value.

Finally, on behalf of the Board, I would like to thank all investors for their continued support and all our management and staff for their dedication, hard work and the good results they have assisted the Group to achieve in the year.

HUANG Xiaofeng
Chairman
Hong Kong, 29 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

The consolidated revenue of the Group for 2016 was HK$10,464 million (2015: HK$9,172 million), an increase of 14.1% as compared with that in 2015. In addition, the profit before tax increased by 9.6% or HK$506 million to HK$5,752 million (2015: HK$5,246 million) and the consolidated profit attributable to owners of the Group increased by 7.9% or HK$307 million to HK$4,212 million (2015: HK$3,905 million) during the year. The Group's net cash flows from operating activities in 2016 was HK$6,099 million (2015: HK$5,429 million), an increase of 12.3% as compared with that in 2015. The growth in revenue, profit before tax and profit attributable to owners of the Company was mainly attributable to a better performance in both water resources and electric power generation businesses, and additional returns from the toll road business and certain water resources projects acquired during the last quarter of 2015. Nevertheless, the increase was partially offset by the unsatisfactory performance in department store operation as well as the hotel operation and management businesses. Total interest income and finance cost of the Group for the year amounted to HK$360 million (2015: HK$492 million) and HK$130 million (2015: HK$136 million), respectively, total interest income net of finance cost of the Group decreased by 35.4% to HK$230 million (2015: HK$356 million) for the year. Net exchange loss during the year was HK$221 million (2015: HK$491 million).

Basic earnings per share was HK 67.25 cents (2015: HK 62.45 cents), increased by 7.7% as compared with that in 2015.

Business Overview

A summary of the performance of the Group's major businesses during 2016 is set out as follows:

Water Resources

Dongshen Water Supply

The profit contribution from the Dongshen Water Supply Project continued to form a significant part of the Group's profit. As at 31 December 2016, the Company's interest in GH Water Supply (Holdings) Limited ("GH Water Holdings") was 96.0% (2015: 96.0%). GH Water Holdings holds a 99.0% interest in Guangdong Yue Gang Water Supply Company Limited, the owner of the Dongshen Water Supply Project.

The designed annual capacity of Dongshen Water Supply Project is 2.423 billion tons. Total water supply to Hong Kong, Shenzhen and Dongguan during the year amounted to 1.826 billion tons (2015: 2.067 billion tons), decreased by 11.7%, generating a revenue of HK$5,656 million (2015: HK$5,489 million), an increase of 3.0% over 2015.

Pursuant to the Hong Kong Water Supply Agreement for the years 2015 to 2017 entered into between the Government of the Hong Kong Special Administrative Region and the Guangdong Provincial Government in 2015, the annual revenue for water sales to Hong Kong for the three years of 2015, 2016 and 2017 were HK$4,222.79 million, HK$4,491.52 million and HK$4,778.29 million, respectively.

The revenue from water sales to Hong Kong for the year increased by 6.4% to HK$4,492 million (2015: HK$4,223 million). The revenue from water sales to Shenzhen and Dongguan areas for the year decreased by 8.1% to HK$1,164 million (2015: HK$1,266 million). The profit before tax of the Dongshen Water Supply Project for the year was HK$3,266 million (2015: HK$3,129 million), 4.4% higher than that in 2015.

Water Group HK

Guangdong Water Group (H.K.) Limited ("Water Group HK"), a wholly-owned subsidiary of the Company, holds a number of subsidiaries and associates which are principally engaged in water distribution, sewage treatment operation and waterworks construction in PRC.

The water supply capacity of each of the subsidiaries of Water Group HK, namely, 東莞市清溪粵海水務有限公司 (Dongguan Qingxi Guangdong Water Co., Ltd.▲), 梅州粵海水務有限公司 (Meizhou Guangdong Water Co., Ltd.▲), 儀征港儀供水有限公司 (Yizheng Gangyi Water Supply Company Limited▲), 高郵港郵供水有限公司 (Gaoyou Gangyou Water Supply Company Limited▲), 寶應粵海水務有限公司 (Baoying

Yuehai Water Company Limited▲), 海南儋州自來水有限公司 (Hainan Danzhou Tap Water Company Limited▲), 梧州粵海江河水務有限公司 (Wuzhou Yuehai Jianghe Water Company Limited▲), Zhaoqing HZ GDH Water Co., Ltd. and 遂溪粵海水務有限公司 (Suixi Guangdong Water Company Limited▲) is 290,000 tons, 210,000 tons, 150,000 tons, 145,000 tons, 130,000 tons, 100,000 tons, 355,000 tons, 90,000 tons and 50,000 tons per day, respectively, totaling 1,520,000 tons per day (2015: 1,450,000 tons per day).

The waste water processing capacity of the sewage treatment plants operated by each of the subsidiaries of Water Group HK, namely, 梅州粵海水務有限公司 (Meizhou Guangdong Water Co., Ltd.▲), 梧州粵海環保發展有限公司 (Wuzhou Yuehai Huanbao Fazhan Company Limited▲), 東莞市常平金勝水務有限公司 (Dongguan Changping Jinsheng Water Co., Ltd.▲), 開平粵海水務有限公司 (Kaiping Guangdong Water Co., Ltd.▲), 五華粵海環保有限公司 (Wuhua Yuehai Huanbao Co., Ltd.▲), 東莞市道滘鴻發污水處理有限公司 (Dongguan Daojiao Hongfa Sewage Treatment Co., Ltd.▲) and 興寧粵海環保有限公司 (Xingning Yuehai Huanbao Co., Ltd.▲) is 100,000 tons, 90,000 tons, 70,000 tons, 50,000 tons, 40,000 tons, 40,000 tons and 3,000 tons per day, respectively, totaling 393,000 tons per day (2015: 390,000 tons per day).

The water supply capacity of 江河港武水務（常州）有限公司 (Jianghe Gangwu Water (Changzhou) Company Limited▲) and 廣州南沙粵海水務有限公司 (Guangzhou Nansha GDH Water Co., Ltd.▲), being associates of Water Group HK, is 520,000 tons and 400,000 tons per day, respectively, totaling 920,000 tons per day (2015: 720,000 tons per day).

Revenue of Water Group HK and its subsidiaries for the year in aggregate amounted to HK$853,948,000 (2015: HK$406,255,000). Profit before tax of Water Group HK, its subsidiaries and associates for the year, excluding the net exchange differences, in aggregate amounted to HK$167,673,000 (2015: HK$63,787,000). The growth was mainly attributable to additional returns from those water resources projects acquired during the last quarter of 2015.

New Water Resources Projects

During the year, the Group successfully bid five new water resources projects in Danzhou, Suixi, Gaozhou, Kaiping and Shanwei, respectively, with total designed water supply capacity of 370,000 tons per day and waste water processing capacity of 195,000 tons per day. The expected investment costs of these projects are RMB1,279 million (equivalent to approximately HK$1,430 million).

Property Investment and Development

Mainland China

Teem Plaza

As at 31 December 2016, the Group held an effective interest of 76.13% in 廣東天河城（集團）股份有限公司 (Guangdong Teem (Holdings) Limited▲) ("GD Teem"), the property owner of Teem Plaza. Teem Plaza comprises a shopping mall, an office building and a hotel. The shopping mall and the office building are held for investment purposes by the Group.

Revenue of Teem Plaza comprises rental income from both the shopping mall (including rentals from the department stores operated by the Group) and the office building. During the year, due to negative impact from exchange rate fluctuation, revenue of Teem Plaza decreased by 2.8% to HK$1,152,167,000 (2015: HK$1,185,966,000). Excluding the impact of currency translation, the revenue of Teem Plaza achieved a steady growth of 3.4% as compared with that in 2015. The profit before tax for the year, excluding changes in fair value of investment properties and net interest income, increased by 1.8% to HK$802,709,000 (2015: HK$788,848,000).

The shopping mall, known as Teemall, is one of the most popular shopping malls in the prime area of Guangzhou and it has a total gross floor area and lettable area of approximately 160,000 square meters and 103,000 square meters, respectively. The mall had an average occupancy rate of nearly 99.8% during the year (2015: 99%). The mall is successful in retaining existing brand-name tenants and attracting new ones.

The office building, known as Teem Tower, is a 45-storey Grade A office tower with a total gross floor area and lettable area of approximately 102,000 square meters and 90,000 square meters, respectively. With an average occupancy rate of 95.5% (2015: 97.91%), the revenue for the year was HK$212,701,000 (2015: HK$219,425,000), a decrease of 3.1%. Excluding the impact of currency translation, the revenue recorded an increase of 3.2% as compared with that in 2015. The profit before tax for the year, excluding changes in fair value of investment properties, decreased by 1.8% to HK$183,712,000 (2015: HK$187,133,000).

Tianjin Teem Shopping Mall

The Group owns a parcel of land situated in Tianjin for developing into a large-scale modern shopping mall with a total gross floor area above ground and underground of approximately 137,100 square meters and 56,000 square meters, respectively. A total sum of approximately HK$2,342 million had been invested as at 31 December 2016.

Panyu Wanbo CBD Project

The Group's effective interest in 廣州市萬亞投資管理有限公司 (Guangzhou City Wanye Investment Management Company Limited▲) ("Wanye") is 31.06%. 廣州天河城投資有限公司 (Guangzhou Tianhecheng Investment Co., Ltd.▲) ("Tianhecheng Investco"), a 60%-owned subsidiary of GD Teem, directly holds 68% interest in Wanye. Wanye owns a parcel of land in 番禺萬博中央商務區 (Panyu Wanbo Central Business District), which is designated to be a new commercial area in Guangzhou. This parcel of land is being developed into a large-scale integrated commercial project with a gross floor area of approximately 260,000 square meters. A total sum of approximately HK$1,981 million had been invested by Tianhecheng Investco into Wanye in accordance with the cooperation agreement as at 31 December 2016.

Hong Kong

Guangdong Investment Tower

The average occupancy rate of Guangdong Investment Tower for the year was 100% (2015: 100%). As a result of the increase in average rental, total revenue for the year was up by 4.6% to HK$53,788,000 (2015: HK$51,400,000).

Department Store Operation

As at 31 December 2016, the Group held an effective interest of approximately 85.2% in both 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.▲) ("GDTDS") and 廣州市天河城萬博百貨有限公司 ("天河城萬博"). GDTDS operates Teemall Store in Teem Plaza. GDTDS also operates Teemall Store – Beijing Road Branch ("Ming Sheng Store"), 奧體歐萊斯名牌折扣店 ("Ao Ti Store"), 東圃百貨店 ("Dong Pu Store"), 東莞第一國際百貨店 ("Dongguan Store"), 佛山南海百貨店 ("Nanhai Store") and 北京路粵海仰忠匯店 ("Yuehaiyangzhong Hui Store"). 天河城萬博 operates 天河城百貨歐萊斯折扣店 ("Wan Bo Store").

The eight stores (2015: nine stores) had a total leased area of approximately 169,000 square meters (2015: 184,000 square meters) as at 31 December 2016. Confronted with keen competition of the retail market in Guangzhou during the year, the total revenue decreased by 11.7% to HK$717,339,000 (2015: HK$812,552,000). The profit before tax for the year decreased by 27.1% to HK$245,287,000 (2015: HK$336,646,000).

The revenue of the stores operated by the Group for the year ended 31 December 2016 was as follows:

		Revenue for the year ended 31 December		
	Leased area sq.m.	**2016 HK$'000**	2015 HK$'000	**Changes** %
Teemall Store	40,000	**459,575**	534,000	–13.9
Wan Bo Store	19,600	**91,221**	95,078	–4.1
Ming Sheng Store	13,300	**53,945**	62,074	–13.1
Dong Pu Store	28,400	**51,826**	52,884	–2.0
Ao Ti Store	21,500	**35,561**	37,965	–6.3
Baiyun New Town Store (closed in July 2016)	–	**14,949**	25,269	–40.8
Dongguan Store	9,800	**3,672**	3,644	+0.8
Nanhai Store (opened in August 2015)	28,400	**3,720**	1,458	+155.1
Yuehaiyangzhong Hui Store (opened in December 2015)	8,000	**2,870**	180	+1,494.4
	169,000	**717,339**	812,552	–11.7

The Group's effective interest in 廣東永旺天河城商業有限公司 (Guangdong Aeon Teem Co., Ltd.▲) ("GD Aeon Teem") is 26.65%. The Group's share of profit in GD Aeon Teem amounted to HK$12,059,000 (2015: HK$10,644,000) during the year, increased by 13.3%.

Hotel Operation and Management

As at 31 December 2016, the Group's hotel management team managed a total of 42 hotels (2015: 40 hotels), of which two were located in Hong Kong (2015: two), one in Macau (2015: one) and 39 in Mainland China (2015: 37). As at 31 December 2016, six hotels, of which two in Hong Kong, one in each of Shenzhen, Guangzhou, Zhuhai and Zhengzhou, were owned or lease-owned by the Group. Of these six hotels, five were managed by our hotel management team with the exception of the one located in Guangzhou, namely Sheraton Guangzhou Hotel, which was managed by Sheraton Overseas Management Corporation.

Among the six hotels (2015: seven hotels) owned or lease-owned, five are star-rated hotels and one is budget hotel. During the year, the average room rate of Sheraton Guangzhou Hotel was HK$1,198 (2015: HK$1,302) whereas the average room rate of the remaining four star-rated hotels and the budget hotel were HK$668 (2015: HK$693) and HK$218 (2015: HK$246), respectively. The average occupancy rate of Sheraton Guangzhou Hotel was 87.3% (2015: 87.7%) and that of the other four star-rated hotels was 77.3% (2015: 79.3%) during the year.

Due to the decline in the number of overnight visitors from Mainland China and the adverse effect of interior renovation works, both of the average room rate and the occupancy rate of hotels in Hong Kong dropped. The revenue of hotel operation and management business for the year decreased by 5.6% to HK$634,119,000 (2015: HK$671,660,000). The profit before tax for the year decreased by 21.8% to HK$88,305,000 (2015: HK$112,964,000).

Other Infrastructure Projects

Zhongshan Power Plant
Zhongshan Power (Hong Kong) Limited, a subsidiary of the Company, holds 75% equity interest in 中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.▲) ("ZTP"). During the year, the construction of two new 300 MW heat and power generators was completed and they commenced operation in February 2016 and June 2016, respectively, to replace the two former power generators.

As at 31 December 2016, ZTP has two power generators with a total installed capacity of 600 MW (2015: 110 MW). Sales of electricity during the year amounted to 1,926 million kwh (2015: 652 million kwh), increased by 195.4%. As a result of the increase in electricity sales, revenue for the year increased by 114.3% to HK$837,656,000 (2015: HK$390,855,000). The profit before tax for the year was HK$257,253,000 (2015: HK$156,631,000), an increase of 64.2%.

Guangdong Yudean Jinghai Power Generation Co., Ltd. ("Yudean Jinghai Power")
The Group's effective interest in Yudean Jinghai Power is 25%. As at 31 December 2016, Yudean Jinghai Power had four power generators with a total installed capacity of 3,200 MW. Sales of electricity for the year amounted to 10,589 million kwh (2015: 12,124 million kwh), a decrease of 12.7%. As a result of the softer demand and drop in electricity tariff, revenue for the year declined by 24.3% to HK$4,702,989,000 (2015: HK$6,213,255,000). In order to reduce the emissions during the operation, Yudean Jinghai Power plans to enhance technical transformation work on power generators. Accordingly, an impairment of HK$83,117,000 for the property, plant and equipment had been made by Yudean Jinghai Power during the year. The profit before tax of Yudean Jinghai Power for the year decreased by 59.2% to HK$643,179,000 (2015: HK$1,577,194,000). The Group's share of profit in Yudean Jinghai Power amounted to HK$116,029,000 (2015: HK$295,490,000) during the year, a decrease of 60.7%.

Guangdong Yuejia Electric Power Co., Ltd ("Meixian Power Plant")
The Group's effective interest in Meixian Power Plant is 12.25%. Guangdong Power Investment Limited ("GD Power Investment"), a 49% associate of the Company, holds 25% interest in Meixian Power Plant. During the year, no dividend income was received by GD Power Investment from this investment (2015: Nil).

Xingliu Expressway
廣西新長江高速公路有限責任公司 (Guangxi Xinchangjiang Gonglu Company Limited▲) ("Xinchangjiang Company") principally engaged in the operation of the Xingliu Expressway. The Xingliu Expressway comprises a main line which is 99.6 km in length and three connection lines (in Xingye, Guigang and Hengxian) with an aggregate length of 52.7 km.

The average daily traffic flow of the Xingliu Expressway was 22,429 vehicle trips during the year (2015: 18,710 vehicle trips from the date of acquisition to 31 December 2015). The revenue and profit before tax of Xinchangjiang Company during the year amounted to HK$629,748,000 (2015: from the date of acquisition to 31 December 2015 amounted to HK$150,022,000) and HK$366,218,000 (2015: from the date of acquisition to 31 December 2015 amounted to HK$78,265,000), respectively.

Yinping PPP Project
On 8 June 2016, the Company entered into a cooperation agreement with 東莞市謝崗鎮人民政府 (Dongguan City Xiegang Town People's Government) (the "Xiegang Government") in respect of a public-private-partnership project (the "Yinping PPP Project") for the development of certain A-grade highways, connecting roads and municipal roads (not being toll roads) (each a "Project Road" and together, the "Project Roads") and the related ancillary support services such as drainage, greening and lighting in 銀瓶創新區 (Yinping Innovation Zone) in Dongguan, Guangdong, the PRC.

During the period of construction of the Project Roads (the "Development Period"), the Group shall be responsible for providing funding for the development of the Project Roads (the "Development Costs") depending on the overall development plan and progress of Yinping Innovation Zone in phases with the total Development Costs not exceeding RMB4.754 billion (equivalent to approximately HK$5.314 billion). The Xiegang Government shall pay the Development Costs by 10 annual instalments throughout the maintenance period, being ten years (the "Maintenance Period") from the acceptance of the Project Roads by the Xiegang Government.

During the Development Period, the Group would be entitled to an accrued interest at 8% (compounded annually) from the date of each amount disbursed by the Project Co (as defined below) that constitute the Development Costs for such Project Road until the end of the Development Period of the relevant Project Roads. This amount (the "Accrued Interest Amount") will be paid by 10 annual instalments throughout the Maintenance Period. In addition, a management fee (the "Management Fee") equal to 2.5% of the Development Costs will be payable by 10 annual instalments throughout the Maintenance Period and an annual maintenance fee equal to 1.1% of the total Development Costs, will be payable annually over the Maintenance Period by the Xiegang Government. The aggregate of the then outstanding Development Costs, the Accrued Interest Amount and the Management Fee are calculated on an accrued interest at 8% per annum on a reducing balance basis over the Maintenance Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 31 December 2016, the Company had established a wholly-owned subsidiary, 東莞粵海銀瓶開發建設有限公司 (Dongguan Yuehai Yinping Development and Construction Limited▲) (the "Project Co" or "Yuehai Yinping") to perform the Company's obligations in the Yinping PPP Project. The rights and responsibilities of the Company under the cooperation agreement had been transferred to Yuehai Yinping after its establishment. No Development Costs were paid and payable for the year.

Available-for-sale Financial Assets

As at 31 December 2016, the available-for-sale financial assets of the Group increased by HK$1,394 million to HK$7,623 million (2015: HK$6,229 million), which were placed by the Group with a number of licensed banks in Mainland China each of which for a term not exceeding one year. The principal sums of these financial assets with those licensed banks were denominated in Renminbi and were principal protected upon the maturity date. Up to the date of this report, HK$6,110 million were matured.

Liquidity, Gearing and Financial Resources

As at 31 December 2016, the cash and bank balances of the Group decreased by HK$2,101 million to HK$7,194 million (2015: HK$9,295 million), of which 96% was denominated in Renminbi and 4% in Hong Kong dollars.

As at 31 December 2016, the Group's financial borrowings decreased by HK$2,263 million to HK$6,137 million (2015: HK$8,400 million), of which 96.5% was denominated in Hong Kong dollars and 3.5% in Renminbi, including non-interest-bearing receipt in advance of HK$709 million. Of the Group's total financial borrowings, HK$1,130 million was repayable within one year while the remaining balances of HK$4,842 million and HK$165 million are repayable within two to five years and beyond five years from the end of the reporting period, respectively.

The Group did not maintain any credit facility as at 31 December 2016 (2015: Nil).

As at 31 December 2016 and 2015, the Group was in a net cash position and hence no gearing ratio was presented. The Group was in a healthy debt servicing position as the EBITDA/finance cost as at 31 December 2016 was 54.47 times (2015: 45.42 times).

The existing cash resources of the Group, together with steady cash flows generated from the Group's operations, are sufficient to meet the Group's payment obligations and business requirements.

Pledge of Assets

As at 31 December 2016 and 2015, except for bank deposits of HK$50,306,000 (2015: Nil) pledged to secure performance obligations of certain service concession agreements, none of property, plant and equipment, concession rights for water distribution operation and sewage treatment operation, comprising operating concession rights and receivables under service concession agreements, were pledged to secure bank loans granted to the Group.

Capital Expenditure

The Group's capital expenditure during the year amounted to HK$1,378 million which was principally related to the development cost for property development projects and the construction cost for Zhongshan Power Plant, water supply and sewage treatment plants.

Exposure to Fluctuations in Exchange and Interest Rates and Related Hedges

As at 31 December 2016, total Renminbi borrowings amounted to HK$213 million (2015: HK$685 million). During the year, the net exchange loss was mainly attributable to certain net monetary assets denominated in Renminbi held by a subsidiary of the Company, where operation is principally in Mainland China with its functional currency denominated in Hong Kong dollars. Due to the existing restriction of the conversion of currencies in Mainland China, it led to an exchange loss arising from translation of monetary assets denominated in Renminbi to Hong Kong dollars. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

As at 31 December 2016, the Group's total floating rate borrowings amounted to HK$5,265 million (2015: HK$7,381 million). The interest rate risk exposure was considered to be minimal and thus no interest rate hedging was considered necessary.

Principal Risks and Uncertainties

Macroeconomic Risk

The financial and operating performance of the Company is closely linked to macroeconomic conditions. Outside of China, the global economy has gradually recovered from the global financial crisis, but many uncertainties lie in the path to a full recovery. Domestically, overall macroeconomic conditions continued to improve. However, due to the combined effects of slow economic recovery in the EU zone, RMB exchange rate fluctuations, continuous capital outflow, higher PRC inflation expectations and further energy saving and emission reduction efforts, the fundamentals of the economy remain challenging. China's economic development faces dilemmas such as maintaining growth while attempting further structural adjustment without causing high inflation, which may cause uncertainties in future macroeconomic policies in areas such as fiscal, taxation, credit, interest rate and exchange rate. Consequently, the Company will closely monitor changes in macroeconomic conditions, capital markets and business operating environments, and provide regular market updates to senior management according to existing company procedures in order to ensure effective implementation of the Company's development strategies and maintain its corporate competitiveness under such external economic environment.

Foreign Currency Risk

As most of the Company's business operations are located in Hong Kong and Mainland China, the Company faces foreign currency risks due to exchange gain/loss from exchange rate fluctuations as well as currency conversion risk due to converted net asset value fluctuations of investment projects in Mainland China. To effectively manage foreign currency risk, the Company closely monitors foreign exchange markets, and utilizes multiple strategic approaches, such as optimizing cash management strategy and project finance instruments, to manage foreign exchange risk.

Market Competition Risk

As market competition intensifies, the Company faces difficulties in its expansion efforts and further decline in project investment returns in the sectors it operates in. In this regard, the Company seeks to explore new sources of revenue and reduce operating costs through product improvement, operating efficiency enhancement and strengthening of the project management team so as to enhance profitability of its projects.

Employee and Remuneration Policy

As at 31 December 2016, the Group had a total of 6,469 employees, of whom 1,414 employees were at managerial level. Among them, 6,242 employees were employed by subsidiaries in Mainland China and 227 were employed by the head office and subsidiaries in Hong Kong. Total remuneration for the year was approximately HK$964,807,000 (2015: HK$901,081,000).

In 2016, adhering to the people-oriented concept, the Group adhered to the core values of "integrity, professionalism, willingness, honesty and cooperation" of the corporate culture. The Group also continued to strengthen the management team building by employing more professionals. The Group further strengthened the training of employees in order to meet the Company's further development needs.

The Group implemented the assessment and feedback mechanism for the senior management which carries out regular review on the performance to ensure their integrity and efficiency. Performance-based incentive policy was introduced and remuneration and incentive packages were commensurate with the results of the Group. The Group also adopted a share option scheme to reward and attract professional talents to provide long-term service to the Group.

In order to enhance the operational capacity of the employees, the Group actively encouraged its employees to attend continuing education and training programmes by providing subsidies as well as providing professional training according to the Company's strategic objectives and working needs on a target-oriented basis.

Looking into the future, the Group will commit to the establishment of a human resources system with good career prospects and incentives, actively build the management team, and forge a corporate and working environment emphasising on integrity and honesty. The Group believes these initiatives will build a solid foundation for the long-term development of the Group.

Event after the Reporting Period

On 19 January 2017, the Company entered into a sale and purchase agreement with GDH Limited, the immediate holding company of the Company, pursuant to which the Company has conditionally agreed to acquire approximately 73.82% of the issued share capital of Guangdong Land Holdings Limited. Details of the transaction were set out in note 44 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Directors

Mr. HUANG Xiaofeng, aged 58, was appointed a Non-Executive Director of the Company on 26 June 2008. He was appointed the Chairman and re-designated as an Executive Director of the Company with effect from 11 November 2010. Mr. Huang graduated from South China Normal University, the People's Republic of China ("PRC") and holds a Bachelor's degree in History. He also holds a Master's degree in Public Administration from Sun Yat-Sen University, PRC. From 1987 to 1999, Mr. Huang worked for the General Office of the Communist Party of China ("CPC") Guangdong Committee in a number of positions. Between 1999 and 2003, Mr. Huang was the Deputy Director General of the General Office of the CPC Guangzhou Committee and thereafter the Deputy Secretary General of the CPC Guangzhou Committee. Between 2003 and 2008, Mr. Huang was the Deputy Director General of the General Office of the Guangdong Provincial Government and then the Deputy Secretary General of the Guangdong Provincial Government. Mr. Huang was appointed a Director and a Deputy General Manager of 廣東粵海控股集團有限公司 (Guangdong Holdings Limited▲) ("Guangdong Holdings") in April 2008 and was subsequently appointed an Executive Director and a Deputy General Manager of GDH Limited ("GDH"). He was appointed the Chairman of Guangdong Holdings and GDH in September 2010 and October 2010, respectively. Mr. Huang was the General Manager of both Guangdong Holdings and GDH during the period from February 2009 to May 2012. Guangdong Holdings and GDH are the ultimate controlling shareholder and the immediate controlling shareholder of the Company, respectively. In October 2008, Mr. Huang was appointed a Non-Executive Director of Guangdong Land Holdings Limited ("Guangdong Land") and was subsequently appointed the Chairman of Guangdong Land in November 2010. Mr. Huang was a Non-Executive Director of Guangnan (Holdings) Limited ("Guangnan Holdings") during the period from October 2008 to July 2012. Both Guangdong Land and Guangnan Holdings are subsidiaries of GDH.

Mr. WEN Yinheng, aged 39, was appointed an Executive Director and the Managing Director of the Company on 15 November 2012. Mr. Wen holds a Bachelor's degree in Economics from Jinan University, PRC, and a Master of Commerce degree in International Professional Accounting from the University of New South Wales, Australia. From 2003 to 2006, Mr. Wen worked in Guangdong Bureau and Listed Company Supervision Department of China Securities Regulatory Commission, supervising the merger, acquisition and restructuring activities of listed companies. Between 2006 and 2011, he worked for Dalian Commodity Exchange and held a number of positions including Director of the Surveillance Department. Mr. Wen joined the Company in November 2011 and acted as a Deputy General Manager of the Company from November 2011 till November 2012. He is also a director of Teem Holdings Limited, 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited▲), Tianjin Teem Shopping Center Co., Ltd. and Guangdong (International) Hotel Management Holdings Limited, and the chairman of 廣東粵海投資財務管理有限公司 (Guangdong Yuehai Investment Financial Management Limited▲) and 北京粵海金信投資有限公司 (Beijing Yuehai Jinxin Investment Limited▲), all of which are subsidiaries of the Company.

Mrs. HO LAM Lai Ping, Theresa, aged 61, was appointed an Executive Director of the Company on 30 October 2015. Mrs. Ho is a Fellow of both the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She graduated from the Hong Kong Polytechnic and has been the Company Secretary of the Company since December 1992. Mrs. Ho was appointed a Deputy General Manager of the Company during the period from September 2011 to November 2012 and has acted as the Executive Deputy General Manager of the Company since November 2012. She was also a Director of the Company for the period from July 1996 to May 2000. She was a Non-Executive Director of Kingway Brewery Holdings Limited (now known as Guangdong Land Holdings Limited) and Guangdong Tannery Limited ("GD Tannery") for the periods from July 2000 to August 2008 and July 2000 to October 2015, respectively. GD Tannery is a subsidiary of GDH. Mrs. Ho is also a director of certain subsidiaries of the Company.

Mr. TSANG Hon Nam, aged 47, was appointed an Executive Director and the Chief Financial Officer of the Company on 17 April 2008. Mr. Tsang graduated from The Chinese University of Hong Kong and holds a Bachelor's degree in Science. He is an Associate of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Tsang acted as an Executive Director and the Chief Financial Officer of Guangnan Holdings during the period from February 2004 to April 2008. Before joining Guangnan Holdings, he was the Deputy General Manager of the Finance Department of GDH and had also worked for Guangdong Enterprises (Holdings) Limited. He is also a director of certain subsidiaries of the Company.

Mr. CAI Yong, aged 51, was appointed a Non-Executive Director of the Company on 25 August 2016. Mr. Cai holds a Master's degree in Business Administration from the South China University of Technology, PRC. Between 1991 and 2016, he worked for a number of departments of the People's Government of Guangdong Province in various positions including Deputy Director of the Economic and Trade Commission, Deputy Director of the Economic and Information Commission and Deputy Director of Department of Commerce. Mr. Cai was appointed a Director and the General Manager of Guangdong Holdings in January 2016 and an Executive Director and the General Manager of GDH in May 2016.

Mr. WU Jianguo, aged 59, was appointed a Non-Executive Director of the Company on 11 November 2010. Mr. Wu holds a Bachelor's Degree in Economics and Management from Guangdong Provincial Party School. From 1988 to 2004, he worked for the Organisation Department of the Guangdong Provincial Party Committee in a number of positions. From June 2004 to March 2010, he served as Director of Personnel Department and Deputy Director of the Guangdong State-Owned Assets Supervision and Administration Commission. Mr. Wu was appointed a Director and Secretary of the Discipline and Inspection Group of Guangdong Holdings, and an Executive Director of GDH in March 2010.

Mr. ZHANG Hui, aged 58, was appointed an Executive Director of the Company on 28 October 2002 and was subsequently appointed the Managing Director of the Company in December 2002. He was re-designated as a Non-Executive Director of the Company on 15 November 2012. Mr. Zhang holds a Master's degree in Business Administration from International East-West University, USA. He worked for the Guangdong Province Dongshen Water Supply Management Bureau from July 1996 to September 2000 in a number of positions, including Section Chief and Vice President. Mr. Zhang joined the Company in July 2002. He was appointed a Director of GDH in December 2008 and was subsequently appointed a Deputy General Manager of Guangdong Holdings and an Executive Director of GDH in May 2012.

Ms. ZHAO Chunxiao, aged 47, was appointed a Non-Executive Director of the Company on 30 August 2011. Ms. Zhao graduated from Liaoning Normal University, PRC (Faculty of Chinese Studies) and the School of China Journalism and Communication (major in Domestic News) and obtained two Bachelor's degrees. She also holds a degree of Executive Master of Business Administration from The Hong Kong University of Science and Technology. From 1994 to 2002, she worked for the Guangdong Branch of Xinhua News Agency as Director of the Finance Office and also Director of the Featured News Division. Between 2003 and 2008, she held a number of positions in Asia Television Limited (Hong Kong) including Director of Information Division of News and Public Relations Department and Assistant Vice President. Ms. Zhao joined GDH and Guangdong Holdings in December 2008 and January 2009, respectively. Ms. Zhao acts as a Deputy General Manager and the Chief Administration Officer of Guangdong Holdings and an Executive Director, the Chief Administration Officer and the Company Secretary of GDH. She was appointed an Executive Director of Guangdong Land in December 2014 and was appointed the Chief Executive Officer of Guangdong Land in August 2016.

Mr. LAN Runing, aged 48, was appointed a Non-Executive Director of the Company on 12 January 2015. Mr. Lan graduated from Sun Yat-Sen University, PRC and obtained a Bachelor's degree in Philosophy. He also obtained a Master's degree in Business Management from South China University of Technology, PRC. From 1996 to 2008, he held a number of positions at the General Office of CPC Guangdong Provincial Committee. Between 2008 and 2014, he worked as the Director of the 4th Division of Personnel Affairs of the Organisation Department of CPC Guangdong Provincial Committee. Mr. Lan was appointed a Deputy General Manager of Guangdong Holdings in April 2014, and also an Executive Director of GDH in May 2014.

Mr. LI Wai Keung, aged 60, was appointed a Non-Executive Director of the Company on 30 May 2000. He acted as an Executive Director and the Chief Financial Officer of the Company from 19 July 2006 to 16 April 2008 and was re-designated as a Non-Executive Director of the Company on 17 April 2008. Mr. Li graduated from the Hong Kong Polytechnic and holds a Master's degree in Business Administration from the University of East Asia. He is a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Li had worked for Henderson Land Development Company Limited. Mr. Li is an Executive Director and the Chief Financial Officer of GDH and also the Chief Financial Officer of Guangdong Holdings. He was appointed a Non-Executive Director of Guangdong Land in October 2011 and was re-designated as an Executive Director in March 2012. He was appointed as the Company Secretary in March 2017. He is also a Director of 永順泰麥芽(中國)有限公司 (Supertime Malting Company Limited▲) ("Supertime") and GDH Finance Co., Ltd. ("GDH Finance"). Supertime is a subsidiary of GDH and GDH Finance is a subsidiary of Guangdong Holdings. He is also an Independent Non-Executive Director of Shenzhen Investment Limited, Hans Energy Company Limited and China South City Holdings Limited and a Director of Shenzhen City Airport (Group) Company Limited. He is an Advisor to the Management Accounting of the Ministry of Finance, PRC, the Chairman of the Council of the Hong Kong Chinese Orchestra Limited, a Director of the China Overseas Friendship Association, the Vice Chairman and Secretary of the Financial and Accounting Affairs Steering Committee of the Hong Kong Chinese Enterprises Association and the President of the Hong Kong Business Accountants Association. He is also a director of certain subsidiaries of the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE (CONTINUED)

Dr. CHAN Cho Chak, John, *GBS, JP*, aged 73, was appointed an Independent Non-Executive Director of the Company on 25 June 1998.

Dr. Chan is also Chairman and Non-Executive Director of RoadShow Holdings Limited; Deputy Chairman and Independent Non-Executive Director of Transport International Holdings Limited; Independent Non-Executive Director of Hang Seng Bank Limited; and Non-Executive Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited. He is Chairman of the Court of The Hong Kong University of Science and Technology and Chairman and Non-Executive Director of Hong Kong News-Expo Limited. He is a Director of The Community Chest of Hong Kong and also a Member of its Executive Committee.

Dr. Chan was educated in Hong Kong and graduated from The University of Hong Kong in 1964 with an Honours Degree in English Literature. He later obtained a Diploma in Management Studies from the same university following the completion of evening studies. He was awarded the degree of Doctor of Business Administration (honoris causa) by the International Management Centres in October 1997 and the degree of Doctor of Social Sciences (honoris causa) by The Hong Kong University of Science and Technology in November 2009, The University of Hong Kong in March 2011 and Lingnan University in November 2012.

Dr. Chan served in the Hong Kong Government for two periods: from 1964 to 1978 and from 1980 to 1993. Initially appointed as an Executive Officer Class II, he rose through the ranks of the civil service to become one of the Cabinet-level Policy Secretaries of the Government. Among the key posts he held over the years were those of Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. He also served as a Member of the Executive Council from October 1992 to May 1993.

Dr. Chan was also the Executive Director and General Manager of Sun Hung Kai Finance Company Limited from 1978 to 1980, the Managing Director of The Kowloon Motor Bus Company (1933) Limited from 1993 to 2006, the Managing Director of Transport International Holdings Limited from 1997 to April 2008 and the Chairman of The Hong Kong Jockey Club from 2006 to August 2010. He was a Director of Swire Properties Limited from April 2010 to March 2017 during which he acted as an Independent Non-Executive Director from December 2011 to March 2017.

Dr. Chan was appointed as a Justice of the Peace (JP) in 1994 and was awarded the Gold Bauhinia Star (GBS) in 1999.

Dr. the Honourable LI Kwok Po, David, *GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. DLitt (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, Officier de l'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l'Ordre National de la Légion d'Honneur*, aged 78, was appointed an Independent Non-Executive Director of the Company on 25 June 1998.

Dr. Li is Chairman and Chief Executive of The Bank of East Asia, Limited. He is an Independent Non-executive Director of The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited. He is also a Director of Hong Kong Interbank Clearing Limited. He was a Director of CaixaBank, S.A. (listed in Spain) and an Independent Non-Executive Director of SCMP Group Limited (now known as Great Wall Pan Asia Holdings Limited).

Dr. Li is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command and Chairman of the Executive Committee of St. James' Settlement. He was a Member of the Legislative Council of Hong Kong from 1985 to 2012.

Mr. FUNG Daniel Richard, *SBS, QC, SC, JP*, aged 63, was appointed an Independent Non-Executive Director of the Company on 3 January 2000.

Mr. Fung is Senior Counsel of the Hong Kong Bar. Called to the English Bar at Middle Temple in 1975 and admitted to the Hong Kong Bar in 1977, Mr. Fung has been in continuous practice for nearly four decades, achieving in 1990 appointment as Queen's Counsel. In 1994, Mr. Fung became the first person of Chinese extraction to serve as Solicitor General of Hong Kong, a position he occupied for four years, becoming in 1997 the first Solicitor General of the Hong Kong Special Administrative Region of the PRC. In 1998, Mr. Fung left public office to take up successive appointments as Visiting Scholar at Harvard Law School (1998-1999) and Senior Visiting Fellow at Yale Law School (1999).

Mr. Fung is currently serving on his third consecutive term as a National Delegate to the Chinese People's Political Consultative Conference. He is Chairman of the United Nations Peace & Development Foundation, President of the International Law Association (ILA) Hong Kong Chapter, Chairman of the Board of International Bridges to Justice (IBJ), Advisory Board Member of Global Thinkers Forum (GTF), Vice Chairman of the American Renewable Energy Institute (AREI), Senior Fellow of the Salzburg Global Seminar (SGS), Vice-President of the Academy of Experts, Member of the Board of Governors of the East West Center (EWC), Advisory Committee Member of the American Bar Association/United Nations Development Program (UNDP) Legal Resource Unit, Council Member of China Law Society (CLS), Founding Governor of the China-US Exchange Foundation, Member of the Hengqin New Area Development Consultative Committee, Adjunct Professor of City University Hong Kong, Chairman of Social Sciences Advisory Board of Lingnan University, Honorary Lecturer in the Department of Professional Legal Education of The University of Hong Kong, Arbitrator of both of the China International Economic and Trade Arbitration Commission (CIETAC) and Shanghai International Economic and Trade Arbitration Commission.

Mr. Fung served as Chairman of the Broadcasting Authority (2002–2008), Member of the World Bank International Advisory Council on Law and Justice (1999-2005), a member of the Hong Kong Government's Strategic Development Commission (2006-2012), a non-executive director of Securities & Futures Commission (1998-2004), a board member of the Airport Authority Hong Kong (1999-2005), on respectively the Basic Law Consultative Committee (1985-1990) and the Central Policy Unit of the Hong Kong Government (1993-1994), Distinguished Fulbright Scholar for Hong Kong in the Year 2000, International Consultant to the UNDP on Corporate Governance in the PRC, Special Advisor to the UNDP on the Rule of Law Development Program in Cambodia and in Laos (2000-2002), Council Member of International Institute for Strategic Studies (IISS) (2004-2012), and member of the World Economic Forum Global Agenda Council (2009-2013).

In 2003, Mr. Fung was awarded the Silver Bauhinia Star for services to constitutional development in Hong Kong and made a Justice of the Peace in 2004. In 2011, Mr. Fung was honored by UNDP in recognition of his contribution to the work of UNDP China and the United Nations Millennium Development Goals.

Dr. the Honourable CHENG Mo Chi, Moses, *GBM, GBS, OBE, JP*, aged 67, was appointed an Independent Non-Executive Director of the Company on 25 November 1999 and was re-designated as a Non-Executive Director of the Company on 13 October 2004. He was further re-designated as an Independent Non-Executive Director of the Company on 15 November 2012.

Dr. Cheng is a practising solicitor and a consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. He is also Chairman of the Process Review Panel for the Securities and Futures Commission and the Insurance Authority. Dr. Cheng currently holds directorships in China Mobile Limited, China Resources Beer (Holdings) Company Limited, K. Wah International Holdings Limited, Kader Holdings Company Limited, Liu Chong Hing Investment Limited, Tian An China Investments Company Limited and Towngas China Company Limited, all being public listed companies in Hong Kong. He is an Independent Non-Executive Director of OTC Clearing Hong Kong Limited, a subsidiary of Hong Kong Exchanges and Clearing Limited. He is also an Independent Non-Executive Director of ARA Asset Management Limited, a company whose shares are listed on Singapore Exchange Limited. Dr. Cheng was a Non-Executive Director of Hong Kong Television Network Limited.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE (CONTINUED)

Mr. WU Ting Yuk, Anthony, *Standing Committee Member, Chinese People's Political Consultative Conference National Committee, GBS, JP*, aged 62, was appointed an Independent Non-Executive Director of the Company on 25 August 2012. He is a Fellow of the Institute of Chartered Accountants in England and Wales and an Honorary Fellow of the Hong Kong College of Community Medicine. He is a Board Member of the Hong Kong General Chamber of Commerce, a member of the State Council's Medical Reform Leadership Advisory Committee, PRC, an advisor to the Public Policy Advisory Committee of the National Health and Family Planning Commission, PRC, the Principal Advisor to the State Administration of Traditional Chinese Medicine, PRC, a member of the Chinese Medicine Reform and Development Advisory Committee, PRC, the Chairman of the China Oxford Scholarship Fund, an Honorary Professor of Faculty of Medicine of The Chinese University of Hong Kong and the Honorary Chairman of the Institute of Certified Management Accountants, Australia (Hong Kong Branch). Mr. Wu also acts as the Chief Advisor to Bank of Tokyo-Mitsubishi UFJ, an Independent Non-Executive Director of China Taiping Insurance Holdings Company Limited and Power Assets Holdings Limited. He is also the Deputy Chairman and Executive Director of Sincere Watch (Hong Kong) Limited. He was formerly the Chairman of the Hong Kong General Chamber of Commerce, the Bauhinia Foundation Research Centre and the Hong Kong Hospital Authority. He was an Independent Non-Executive Director of Fidelity Funds and Agricultural Bank of China Limited.

Mr. Wu was appointed as Justice of the Peace in 2004 and was awarded the honour of the Gold Bauhinia Star in 2008.

Senior Management

The senior management of the Group comprises the Executive Directors above, namely, Mr. Huang Xiaofeng, Mr. Wen Yinheng, Mrs. Ho Lam Lai Ping, Theresa and Mr. Tsang Hon Nam.

DIRECTORS' REPORT

The directors (the "Directors") of Guangdong Investment Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2016.

Principal Activities

The Group was principally engaged in investment holding, water resources, property investment and development, department store operation, hotel ownership, operation and management, investment in energy projects and road and bridge operation. Details of the principal activities of the principal subsidiaries and associates are set out in notes 1 and 17 to the financial statements, respectively.

Results and Dividends

The results of the Group for the year ended 31 December 2016 and the Group's financial position as at that date are set out in the financial statements on pages 58 and 59.

An interim dividend of HK 12.0 cents (2015: HK 10.0 cents) per ordinary share was paid on 27 October 2016. The board of Directors (the "Board") has resolved to recommend the payment of a final dividend of HK 30.0 cents (2015: HK 24.0 cents) per ordinary share for the year ended 31 December 2016.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Friday, 23 June 2017 (the "2017 AGM"), is expected to be paid on Thursday, 20 July 2017 to shareholders whose names appear on the register of members of the Company on Thursday, 29 June 2017.

In order to qualify for attending and voting at the 2017 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 19 June 2017.

The register of members of the Company will be closed on Thursday, 29 June 2017 for the purpose of determining shareholders' entitlement to the proposed final dividend. On that day, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with Tricor Tengis Limited at the above address not later than 4:30 p.m. on Wednesday, 28 June 2017.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development, principal risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 14 and 15 and Management Discussion and Analysis on pages 16 to 23 of this Annual Report.

The financial risk management objectives and policies of the Group are shown in note 42 to the financial statements on pages 146 and 147 of this Annual Report.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on pages 6 to 13 of this Annual Report.

Discussion on the Group's environmental issues and compliance with the relevant laws and regulations that have a significant impact on the Company are contained in the Corporate Governance Report on pages 42 to 51 of this Annual Report.

The Company's key relationships with its employees, customers and suppliers and business associates that have a significant impact on the Company and on which the Company's success depends are shown in the Management Discussion and Analysis under "Employee and Remuneration Policy" section on page 23, and in the Corporate Governance Report on pages 42 to 51 of this Annual Report.

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years extracted from the audited financial statements is set out below:

Results

	Year ended 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
REVENUE	**10,464,202**	9,171,959	8,426,285	7,990,015	7,736,095
PROFIT FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	**5,573,025**	4,921,169	5,789,402	5,731,491	4,769,586
Share of profits of a joint venture	**–**	–	–	51,238	81,527
Share of profits less losses of associates	**179,005**	325,079	311,546	262,168	70,573
PROFIT BEFORE TAX	**5,752,030**	5,246,248	6,100,948	6,044,897	4,921,686
INCOME TAX EXPENSE	**(1,099,632)**	(956,949)	(1,138,168)	(1,098,511)	(953,672)
PROFIT BEFORE NON-CONTROLLING INTERESTS	**4,652,398**	4,289,299	4,962,780	4,946,386	3,968,014
Non-controlling interests	**(440,361)**	(384,022)	(565,650)	(520,269)	(554,190)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**4,212,037**	3,905,277	4,397,130	4,426,117	3,413,824

Assets, liabilities and non-controlling interests

	As at 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
PROPERTY, PLANT AND EQUIPMENT	**6,691,743**	7,083,391	3,649,550	3,085,632	3,100,116
INVESTMENT PROPERTIES	**12,561,194**	12,326,764	12,113,823	10,531,668	9,459,530
PREPAID LAND LEASE PAYMENTS	**264,498**	295,013	173,107	94,558	96,772
GOODWILL	**301,150**	303,521	307,533	266,146	266,146
INVESTMENT IN A JOINT VENTURE	**–**	–	–	–	720,386
INVESTMENTS IN ASSOCIATES	**1,716,163**	1,892,870	1,659,479	1,702,873	1,482,287
OPERATING CONCESSION RIGHTS	**14,140,407**	15,218,717	12,858,007	13,320,172	14,124,484
RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS	**427,536**	447,214	472,213	–	–
OTHER ASSETS	**15,966,159**	16,495,774	16,340,549	12,281,693	8,083,524
DEFERRED TAX ASSETS	**61,507**	46,726	41,104	29,698	28,747
TOTAL ASSETS	**52,130,357**	54,109,990	47,615,365	41,312,440	37,361,992
OTHER LOANS AND LIABILITIES	**(11,377,811)**	(14,106,348)	(9,564,607)	(7,135,234)	(7,305,330)
DEFERRED TAX LIABILITIES	**(2,513,860)**	(2,736,217)	(2,386,607)	(1,995,688)	(1,672,413)
TOTAL LIABILITIES	**(13,891,671)**	(16,842,565)	(11,951,214)	(9,130,922)	(8,977,743)
NON-CONTROLLING INTERESTS	**(6,016,718)**	(5,795,281)	(5,397,407)	(4,868,196)	(4,346,251)
TOTAL EQUITY	**38,238,686**	37,267,425	35,664,151	32,181,518	28,384,249

Major Properties

Details of the major properties held by the Group as at 31 December 2016 are set out on pages 151 and 152 of this Annual Report.

Shares Issued

During the year, the Company has issued a total of 9,883,080 ordinary shares, fully paid, for a total cash consideration of HK$61,275,096 as a result of the exercise of share options under the Share Option Scheme of the Company.

Details of the Company's shares issued during the year are set out in note 28 to the financial statements.

Equity-Linked Agreements

Save as disclosed in the section headed "Share Options of the Company" of this report and "Share Option Scheme" in note 29 to the financial statements, no equity-linked agreement was entered into by the Company at the end of the year or at any time during the year.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2016, calculated under the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance, amounted to HK$2,158,625,000 (2015: HK$1,807,959,000).

Donations

The donations made by the Group during the year amounted to HK$187,000 (2015: HK$1,494,000).

Arrangement to Acquire Shares or Debentures

Save as disclosed in the sections headed "Directors' Interests and Short Positions in Securities" and "Share Options of the Company" of this report, and "Share Option Scheme" in note 29 to the financial statements, at the end of the year or at any time during the year was the Company or the Company's subsidiary or parent company or a subsidiary of the Company's parent company a party to any arrangements to enable Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors

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

Executive Directors
Huang Xiaofeng *(Chairman)*
Wen Yinheng *(Managing Director)*
Ho Lam Lai Ping, Theresa *(Company Secretary)*
Tsang Hon Nam *(Chief Financial Officer)*

Non-Executive Directors
Cai Yong (appointed on 25 August 2016)
Wu Jianguo
Zhang Hui
Zhao Chunxiao
Lan Runing
Li Wai Keung
Huang Zhenhai (resigned on 27 January 2016)

Independent Non-Executive Directors
Chan Cho Chak, John
Li Kwok Po, David
Fung Daniel Richard
Cheng Mo Chi, Moses
Wu Ting Yuk, Anthony

Directors (continued)

In accordance with Articles 77 to 79 of the Company's Articles of Association, Mr. Tsang Hon Nam, Mr. Wu Jianguo, Ms. Zhao Chunxiao, Mr. Fung Daniel Richard and Dr. Cheng Mo Chi, Moses will retire by rotation at the 2017 AGM and shall be eligible for re-election.

Mr. Tsang Hon Nam, Ms. Zhao Chunxiao, Mr. Fung Daniel Richard and Dr. Cheng Mo Chi, Moses, being eligible, have offered themselves for re-election and if re-elected, will hold office from the date of re-election to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2020, and (ii) 30 June 2020, subject to earlier determination in accordance with the Articles of Association of the Company and/or any applicable laws and regulations.

Due to his age, Mr. Wu Jianguo has not offered himself for re-election and will retire from office after the conclusion of the 2017 AGM.

Mr. Huang Zhenhai, who resigned as a Non-Executive Director on 27 January 2016 to pursue his career development, confirmed that he had no disagreement with the Board and there was nothing relating to his resignation needed to be brought to the attention of the shareholders of the Company.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company included in the consolidated financial statements during the year is available on the Company's website at www.gdi.com.hk under the "Corporate Governance" section.

Directors' Service Contracts

None of the Directors proposed for re-election at the 2017 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Material Interests in Transactions, Arrangements or Contracts

Save as disclosed in the section headed "Continuing Connected Transactions" in note 38 to the financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Permitted Indemnity Provision

Indemnity provision within the meaning of permitted indemnity provision under the Hong Kong Companies Ordinance for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2016. In addition, the Company has taken out and kept in force appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company.

Directors' Interests in Competing Businesses

The interests of Directors in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business") as required to be disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year and up to the date of this report are as follows:

1. Core Business Activities of the Group

(1) Water resources
(2) Property investment and development
(3) Department store operation
(4) Hotel ownership and operation
(5) Hotel management
(6) Investments in energy projects
(7) Road and bridge

2. Interests in Competing Business

Name of Director	Name of Company	Nature of Interests	Competing Business
Huang Xiaofeng	廣東粵海控股集團有限公司 (Guangdong Holdings Limited▲) ("Guangdong Holdings")	Chairman	(1), (2) & (4)
	GDH Limited ("GDH")	Chairman	(1), (2) & (4)
	Guangdong Land Holdings Limited ("Guangdong Land")	Chairman & Non-Executive Director	(2)
Cai Yong *(Note 1)*	Guangdong Holdings	Director & General Manager	(1), (2) & (4)
	GDH	Executive Director & General Manager	(1), (2) & (4)
Wu Jianguo	Guangdong Holdings	Director	(1), (2) & (4)
	GDH	Executive Director	(1), (2) & (4)
Zhang Hui	GDH	Executive Director	(1), (2) & (4)
Zhao Chunxiao	GDH	Executive Director	(1), (2) & (4)
	Guangdong Land	Executive Director & Chief Executive Officer	(2)
Lan Runing	GDH	Executive Director	(1), (2) & (4)
Li Wai Keung	GDH	Executive Director	(1), (2) & (4)
	Guangdong Land	Executive Director	(2)
Huang Zhenhai *(Note 2)*	Guangdong Land	Non-Executive Director	(2)

Notes:

1. *Mr. Cai Yong was appointed a Non-Executive Director of the Company on 25 August 2016.*

2. *Mr. Huang Zhenhai resigned as a Non-Executive Director of the Company on 27 January 2016.*

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Directors' Interests and Short Positions in Securities

As at 31 December 2016, the interests and short positions of the Directors and chief executive 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 Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Interests and short positions in the Company

(i) Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Huang Xiaofeng	Personal	2,595,580	Long position	0.041%
Wu Jianguo	Personal	333,370	Long position	0.005%
Zhang Hui	Personal	2,106,130	Long position	0.034%
Zhao Chunxiao	Personal	582,170	Long position	0.009%
Li Wai Keung	Personal	1,427,160	Long position	0.023%
Ho Lam Lai Ping, Theresa	Personal	879,200	Long position	0.014%
Tsang Hon Nam	Personal	879,200	Long position	0.014%
Chan Cho Chak, John	Personal	5,450,000	Long position	0.087%
Li Kwok Po, David	Personal	11,000,000	Long position	0.176%
Cheng Mo Chi, Moses	Personal	3,000,000	Long position	0.048%

Note: The approximate percentage of interests held was calculated on the basis of 6,264,931,421 ordinary shares of the Company in issue as at 31 December 2016.

(ii) Interests in options relating to ordinary shares (Long positions)

(1) Share Option Scheme adopted on 24 October 2008 (the"2008 Scheme")

		Number of share options								
Name of Director	Date of grant of share options* (dd.mm.yyyy)	At date of grant	At 1 January 2016	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2016	Total consideration paid for share options granted HK$	Exercise price of share options** HK$ (per share)	Price of ordinary share at date immediately before date of grant*** HK$ (per share)	Price of ordinary share at date immediately before the exercise date*** HK$ (per share)
Huang Xiaofeng	22.01.2013	2,693,000	1,615,800	–	(738,380)	–	877,420	–	6.20	6.30	9.20
Wu Jianguo	22.01.2013	2,268,000	1,360,800	–	(582,170)	–	778,630	–	6.20	6.30	9.24
Zhang Hui	22.01.2013	2,268,000	1,360,800	–	(589,930)	–	770,870	–	6.20	6.30	9.20
Zhao Chunxiao	22.01.2013	2,268,000	1,360,800	–	(582,170)	–	778,630	–	6.20	6.30	9.24
Li Wai Keung	22.01.2013	2,243,000	1,345,800	–	(529,960)	–	815,840	–	6.20	6.30	9.20
Wen Yinheng	22.01.2013	1,395,000	837,000	–	(382,670)	–	454,330	–	6.20	6.30	9.20
Ho Lam Lai Ping, Theresa	22.01.2013	1,256,000	753,600	–	(376,800)	–	376,800	–	6.20	6.30	9.20
Tsang Hon Nam	22.01.2013	1,256,000	753,600	–	(376,800)	–	376,800	–	6.20	6.30	9.20

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

(ii) Interests in options relating to ordinary shares (Long positions) (continued)

(1) Share Option Scheme adopted on 24 October 2008 (the"2008 Scheme") (continued)
Notes to the above share options granted pursuant to the 2008 Scheme:

(a) The option period of all the share options is five years and six months from the date of grant.

(b) Any share option is only exercisable during the option period after it has become vested.

(c) The normal vesting scale of the share options is as follows:

Date	***Percentage Vesting***
The date two years after the date of grant	*40%*
The date three years after the date of grant	*30%*
The date four years after the date of grant	*10%*
The date five years after the date of grant	*20%*

(d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the Board upon grant and stated in the offer of grant.

(e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	***Percentage Vesting***
Before the date which is four months after the date of grant	*0%*
On or after the date which is four months after but before the date which is one year after the date of grant	*10%*
On or after the date which is one year after but before the date which is two years after the date of grant	*25%*
On or after the date which is two years after but before the date which is three years after the date of grant	*40%*
On or after the date which is three years after but before the date which is four years after the date of grant	*70%*
On or after the date which is four years after the date of grant	*80%* *The remaining 20% also vests upon passing the overall performance appraisal for those four years*

(2) Notes to the reconciliation of share options outstanding during the year

* *Details of the vesting period of the share options granted under the 2008 Scheme are set out in the "Share Option Scheme adopted on 24 October 2008" section of this report.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

*** *The price of the Company's ordinary share disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the share options were granted.*

The price of the Company's ordinary share disclosed as "at date immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the share options were exercised by each of the Directors or all other participants as an aggregate whole.

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in Guangdong Land

Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Huang Xiaofeng	Personal	3,880,000	Long position	0.227%
Ho Lam Lai Ping, Theresa	Personal	398,000	Long position	0.023%
Cheng Mo Chi, Moses	Personal	600,000	Long position	0.035%

Note: The approximate percentage of interests held was calculated on the basis of 1,711,536,850 ordinary shares of Guangdong Land in issue as at 31 December 2016.

Interests and short positions in Guangnan (Holdings) Limited

Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Tsang Hon Nam	Personal	300,000	Long position	0.033%
Li Kwok Po, David	Personal	15,000	Long position	0.002%

Note: The approximate percentage of interests held was calculated on the basis of 907,593,285 ordinary shares of Guangnan (Holdings) Limited in issue as at 31 December 2016.

Interests and short positions in Guangdong Tannery Limited

Interests in ordinary shares

Name of Director	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note)*
Ho Lam Lai Ping, Theresa	Personal	200,000	Long position	0.037%

Note: The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, to the knowledge of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2016, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/ Nature of interests	Number of ordinary shares held	Long/Short position	Approximate percentage of interests held *(Note 1)*
Guangdong Holdings *(Note 2)*	Interest in controlled corporation	3,420,563,527	Long position	54.60%
GDH *(Note 3)*	Beneficial owner/ Interest in controlled corporation	3,420,563,527	Long position	54.60%
Guangdong Trust Ltd.	Beneficial owner/ Interest in controlled corporation	576,404,918	Long position	9.20%

Notes:

1. *The approximate percentage of interests held was calculated on the basis of 6,264,931,421 ordinary shares of the Company in issue as at 31 December 2016.*
2. *The attributable interest which Guangdong Holdings has in the Company is held through its 100% direct interest in GDH.*
3. *The interests of GDH set out above include attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.*

Save as disclosed above, as at 31 December 2016, no other person (other than a Director or chief executive of the Company) had, or were taken or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Significant Contract with Controlling Shareholders

Save as disclosed in notes 37 and 38 to the financial statements, the Group and the controlling shareholders of the Company had not entered into any contract of significance during the year.

Continuing Connected Transactions

Details of the continuing connected transactions are disclosed in note 38 to the financial statements.

Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business are provided under note 37 to the financial statements. The transactions described in note 37(a) (notes (i) to (iii) and note (vii)) to the financial statements constitute continuing connected transactions under the Listing Rules, and details of which are disclosed in note 38 to the financial statements. In respect of these transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Apart from the abovementioned continuing connected transactions, none of the related party transactions as disclosed in note 37 to the financial statements is subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Share Options of the Company

As at 31 December 2016, save as disclosed in the section of "Directors' Interests and Short Positions in Securities" of this report, certain other eligible persons had the following interests in rights to subscribe for the ordinary shares of the Company granted under the 2008 Scheme. Each share option entitled the holder to subscribe for one ordinary share of the Company. Further details are set out in note 29 to the financial statements.

		Number of share options									
Category of participants	Date of grant of share options (dd.mm.yyyy)	At date of grant	At 1 January 2016	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2016	Total consideration paid for share options granted HK$	Exercise price of share options HK$ (per share)	Price of ordinary share at date immediately before date of grant HK$ (per share)	Price of ordinary share at date immediately before the exercise date HK$ (per share)
Employees	22.01.2013	19,202,000	10,292,400	–	(5,089,160)	–	5,203,240	–	6.20	6.30	10.26
Ex-Director	22.01.2013	2,315,000	1,389,000	–	(635,040)	(753,960)	–	–	6.20	6.30	9.20

Additional information regarding the above share options is set out in the "Notes to the above share options granted pursuant to the 2008 Scheme" in the section headed "Directors' Interests and Short Positions in Securities" of this report on page 35.

Details regarding the reconciliation of share options outstanding during the year are set out in the "Notes to the reconciliation of share options outstanding during the year" in the section headed "Directors' Interests and Short Positions in Securities" of this report on page 35.

Purchase, Sale or Redemption of Listed Securities

During the year, the Company issued the following new ordinary shares to certain option holders pursuant to the 2008 Scheme:

Total number of new ordinary shares issued	Exercise price per ordinary share HK$	Total cash consideration HK$
9,883,080	6.20	61,275,096

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange during the year.

Major Customers and Suppliers

During the year under review, sales to the Group's five largest customers accounted for 63% of the total revenue for the year and sales to the Group's largest customer included therein amounted to 43%. Purchases from the Group's five largest suppliers accounted for 20% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 9%.

None of the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued shares) had any interest in the Group's five largest customers and suppliers.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Disclosure under Rule 13.21 of the Listing Rules

Facility Agreement dated 23 October 2014

Pursuant to a facility agreement (the "GDI 2014 Facility Agreement") entered into between the Company and a bank on 23 October 2014 in relation to a term loan facility (the "GDI 2014 Facility") in the principal amount of HK$1,800 million made available by the bank to the Company, it shall be an event of default if:

(i) Guangdong Holdings ceases to beneficially own, directly or indirectly, at least 51% of the shareholding in the Company; or

(ii) the Guangdong Provincial People's Government of the People's Republic of China (the "Guangdong Provincial Government") ceases to beneficially own, directly or indirectly, 100% of the shareholding in Guangdong Holdings.

On and at any time after the occurrence of any of the aforementioned events which is continuing, the bank may by notice to the Company:

(i) cancel the GDI 2014 Facility whereupon they shall immediately be cancelled;

(ii) declare that all or part of the principal amount outstanding, together with accrued interest, and all other amounts accrued or outstanding under the GDI 2014 Facility Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or

(iii) declare that all or part of the principal amount outstanding be payable on demand, whereupon they shall immediately become payable on demand by the bank.

The outstanding principal of the GDI 2014 Facility as at 31 December 2016 amounted to HK$770 million. The GDI 2014 Facility shall be repaid by the Company on the date 36 months from the date of the GDI 2014 Facility Agreement.

Facility Agreement dated 22 May 2015

Pursuant to a facility agreement (the "GDI May 2015 Facility Agreement") entered into between the Company and a bank on 22 May 2015 in relation to a term loan facility (the "GDI May 2015 Facility") in the principal amount of HK$1,500 million made available by the bank to the Company, it shall be an event of default if:

(i) GDH ceases to beneficially own, directly and/or indirectly, at least 51% of the shareholding in the Company; and

(ii) the Guangdong Provincial Government ceases to beneficially own, directly and/or indirectly, 100% of the shareholding in GDH.

If an event of default under the GDI May 2015 Facility Agreement occurs, the bank may by notice to the Company:

(i) cancel the GDI May 2015 Facility whereupon they shall immediately be cancelled;

(ii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the GDI May 2015 Facility Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or

(iii) declare that all or part of the loans be payable on demand, whereupon they shall immediately become payable on demand by the bank.

The outstanding principal of the GDI May 2015 Facility as at 31 December 2016 amounted to HK$1,500 million. The GDI May 2015 Facility shall be repaid by the Company on the date 36 months from the date of the GDI May 2015 Facility Agreement.

Disclosure under Rule 13.21 of the Listing Rules (continued)

Facility Agreement dated 23 June 2015

Pursuant to a facility agreement (the "GDI June 2015 Facility Agreement") entered into between the Company and a bank on 23 June 2015 in relation to a term loan facility (the "GDI June 2015 Facility") in the principal amount of HK$1,000 million made available by the bank to the Company, it shall be an event of default if:

(i) Guangdong Holdings ceases to beneficially own, directly and/or indirectly, at least 51% of the shareholding in the Company; and

(ii) the Guangdong Provincial Government ceases to beneficially own, directly and/or indirectly, 100% of the shareholding in Guangdong Holdings.

If an event of default under the GDI June 2015 Facility Agreement occurs, the bank may by notice to the Company:

(i) cancel the GDI June 2015 Facility whereupon they shall immediately be cancelled;

(ii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the GDI June 2015 Facility Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or

(iii) declare that all or part of the loans be payable on demand, whereupon they shall immediately become payable on demand by the bank.

The outstanding principal of the GDI June 2015 Facility as at 31 December 2016 amounted to HK$1,000 million. The GDI June 2015 Facility shall be repaid by the Company on the date 36 months from the date of the GDI June 2015 Facility Agreement.

Facility Agreement dated 6 October 2015

Pursuant to a facility agreement (the "GDI October 2015 Facility Agreement") entered into between the Company and a bank on 6 October 2015 in relation to a term loan facility (the "GDI October 2015 Facility") in the principal amount of HK$1,800 million made available by the bank to the Company, it shall be an event of default if:

(i) GDH ceases to beneficially own, directly and/or indirectly, at least 51% of the shareholding in the Company; and

(ii) the Guangdong Provincial Government ceases to beneficially own, directly and/or indirectly, 100% of the shareholding in GDH.

If an event of default under the GDI October 2015 Facility Agreement occurs, the bank may by notice to the Company:

(i) cancel the GDI October 2015 Facility whereupon they shall immediately be cancelled;

(ii) declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the GDI October 2015 Facility Agreement be immediately due and payable, whereupon they shall become immediately due and payable; and/or

(iii) declare that all or part of the loans be payable on demand, whereupon they shall immediately become payable on demand by the bank.

The outstanding principal of the GDI October 2015 Facility as at 31 December 2016 amounted to HK$1,800 million. The GDI October 2015 Facility shall be repaid by the Company on the date 36 months from the date of the GDI October 2015 Facility Agreement.

Changes in Directors' Information

The changes in Directors' information are set out below:

(i) The remuneration package of Mr. Wen Yinheng comprising salary, allowances, benefits in kind and pension scheme contributions, but excluding performance related bonus and its corresponding mandatory provident fund contributions, was adjusted to approximately HK$1,081,000 per annum, with effect from 1 January 2016.

(ii) The remuneration package of Mrs. Ho Lam Lai Ping, Theresa comprising salary, allowances, benefits in kind and pension scheme contributions, but excluding performance related bonus, was adjusted to approximately HK$2,155,000 per annum, with effect from 1 January 2016.

(iii) The remuneration package of Mr. Tsang Hon Nam comprising salary, allowances, benefits in kind and pension scheme contributions, but excluding performance related bonus, was adjusted to approximately HK$1,869,000 per annum, with effect from 1 January 2016.

韶關發電D廠有限公司 (Shaoguan Power Plant (D) Ltd.▲), a subsidiary of the Company, was dissolved in December 2016 and Mr. Tsang Hon Nam ceased to be a director of the said company.

(iv) Ms. Zhao Chunxiao was appointed as the Chief Executive Officer of Guangdong Land with effect from 25 August 2016.

(v) Mr. Li Wai Keung was appointed as the Company Secretary of Guangdong Land with effect from 6 March 2017.

(vi) Dr. Chan Cho Chak, John ceased to be an Independent Non-Executive Director of Swire Properties Limited with effect from 17 March 2017.

(vii) Mr. Wu Ting Yuk, Anthony was re-designated from Co-Chairman to Deputy Chairman of Sincere Watch (Hong Kong) Limited with effect from 1 October 2016.

Save for the above changes in Directors' information, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Auditors

The consolidated financial statements now presented have been audited by Ernst & Young, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment. A resolution will be proposed at the 2017 AGM for the re-appointment of Ernst & Young as auditors of the Company.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 29 March 2017

CORPORATE GOVERNANCE REPORT

Business Model and Development Strategies

The principal businesses of the Group include investment holding, water resources, property investment and development, department store operation, hotel ownership, operation and management, investment in energy projects and road and bridge operation. The Group is committed to consolidating the operational development of its existing businesses and expanding its core businesses in order to generate continuous and steady investment returns for shareholders. By optimising asset portfolio, strengthening the capital operation, enhancing management standard and corporate governance, the Group endeavours to further increase its competitive strengths and enhance its market influence, providing strong support for the long-term, steady and sustainable development of the enterprise.

According to its strategic development plan, the Group will continue to develop its water resources business in a proactive and prudent manner. The Group continues to explore market investment opportunities in areas such as untreated water, urban water supply and sewage treatment. The Group will fasten the pace of project acquisitions in an effort to further expand its scale, while continuing to optimize its asset structure and facilitate further business integration.

Faced with the trend of globalization, the Group will continue to capitalize on Hong Kong's status as an international financial centre, improve its capital utilization efficiency and strengthen its capital management capabilities. Meanwhile, the Group will optimize its human resources operations and further improve the professionalism of its management. The Group will step up its efforts in strengthening corporate culture and increase corporate core competitiveness.

Corporate Governance Code

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company had complied with the code provisions set out in the CG Code for the year ended 31 December 2016 and, where appropriate, the applicable recommended best practices of the CG Code.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors. In response to specific enquiries made, all Directors confirmed that they had complied with the required standards of dealings as set out in the Model Code during the year.

Board of Directors

The board of Directors (the "Board") is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management is entrusted by the Board with the authority and responsibility for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for the Board's approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements, rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

Board of Directors (continued)

Board Composition

There were a couple of changes to the Company's Board during the year and up to the date of this Annual Report. Mr. Cai Yong was appointed as a Non-Executive Director with effect from 25 August 2016. Mr. Huang Zhenhai resigned as a Non-Executive Director with effect from 27 January 2016.

As at the date of this Annual Report, the Board comprises four Executive Directors, being Mr. Huang Xiaofeng, Mr. Wen Yinheng, Mrs. Ho Lam Lai Ping, Theresa and Mr. Tsang Hon Nam, six Non-Executive Directors, being Mr. Cai Yong, Mr. Wu Jianguo, Mr. Zhang Hui, Ms. Zhao Chunxiao, Mr. Lan Runing and Mr. Li Wai Keung, and five Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony.

During the year, the Non-Executive Directors (including the Independent Non-Executive Directors) provided the Company with a diverse range of expertise and a balance of skills, and brought independent judgements on issues pertinent to strategic direction, development, performance and risk management through their contribution at Board meetings and committee meetings.

The names of the Directors and their roles and functions are posted on Company's website at www.gdi.com.hk.

Chairman and Managing Director

The Chairman of the Board is Mr. Huang Xiaofeng and the Managing Director is Mr. Wen Yinheng. The roles of the Chairman and the Managing Director of the Company are clearly defined and segregated to ensure independence, proper checks and balances.

The Chairman has executive responsibilities, provides leadership to, and oversees the functioning of, the Board to ensure that it acts in the best interests of the Group and that Board meetings are planned and conducted effectively. He is also responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by the Directors and the Company Secretary. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman promotes a culture of openness and actively encourages Directors to voice their opinion and be fully engaged in the Board's affairs so as to contribute to the Board's effective functioning. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders and other stakeholders as outlined later in this report.

The Managing Director, leading the management of the Company, is accountable to the Board for the overall implementation of the Company's strategies and the coordination of overall business operations.

Non-Executive Directors

All Directors, including Non-Executive Directors, appointed to fill a casual vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his or her appointment and shall then be eligible for re-election.

Moreover, all Non-Executive Directors (including Independent Non-Executive Directors) of the Company are appointed for a term of not more than approximately three years expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that Director, or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that Director and in any event, subject to earlier determination in accordance with the articles of association of the Company and/or any applicable laws and regulations.

Board of Directors (continued)

Independence of Independent Non-Executive Directors

The Company has complied with the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. The Company has received confirmation of independence from the five Independent Non-Executive Directors, namely Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony in accordance with Rule 3.13 of the Listing Rules.

Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard and Dr. Cheng Mo Chi, Moses have served the Board of the Company for more than nine years. They have clearly demonstrated their willingness to exercise independent judgement and to provide objective challenges to the management. There is no evidence that length of tenure is having an adverse impact on their independence. The Board therefore considers that Dr. Chan, Dr. Li, Mr. Fung and Dr. Cheng remain independent, notwithstanding the length of their tenure.

The Board as well as the Nomination Committee have reviewed the independence of all Independent Non-Executive Directors and have concluded that all of them are independent within the definition of the Listing Rules. Further, up to the date of this report, the Board is not aware of the occurrence of any events, which would cause it to believe that the independence of any of the Independent Non-Executive Directors has been impaired.

Board Meeting

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company, and to review and approve the Company's annual, interim and quarterly results. During the year, six Board meetings were held and attendance of each Director at the Board meetings is set out in the section headed "Board and Committees Meetings" of this report.

Regular Board meetings in each year are scheduled in advance to facilitate maximum attendance of Directors. At least fourteen days' notice of a Board meeting is normally given to all Directors who are provided with an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft minutes of each Board meeting are circulated to Directors for their comment before being tabled at the next Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at reasonable time on reasonable notice by any Director.

According to the current Board practice, if a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter will be dealt with by the Board at a duly convened Board Meeting. The articles of association of the Company also stipulate that save for the exceptions as provided therein, a Director shall abstain from voting and not be counted in the quorum at meetings for approving any transaction, contract or arrangement in which such Director or any of his/her associates has a material interest. Every Director is entitled to have access to the Board papers and related materials as well as to the advice and services of the Company Secretary.

Relationship amongst Directors

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors as at the date of this report as set out in pages 24 to 28 to this Annual Report, demonstrate a diversity of skills, expertise, experience and qualifications.

Directors' Induction and Continuous Professional Development

Upon appointment to the Board, each new Director receives an induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company encourages the Directors to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong ordinances and corporate governance practices so that they can continuously update and further improve their relevant knowledge and skills. Some Directors attended seminars and conferences organized by government authorities, professional bodies and industrial organizations in relation to corporate governance, updates on laws, rules and regulations, accounting, financial, management or other professional skills. The Company has organized seminars in April 2016 and August 2016 to brief the Directors on "Legal and Regulatory Updates, Cases and Materials" and "PRC Tax Development on Transactions", respectively. Reading materials have also been provided to the Directors to develop and refresh their professional skills.

According to the records kept by the Company, the Directors attended the following trainings during the year ended 31 December 2016.

Name of Director	Seminar in April 2016	Seminar in August 2016	Seminars and Conferences	Reading Materials
Executive Directors				
Huang Xiaofeng	✔		✔	✔
Wen Yinheng	✔	✔	✔	✔
Ho Lam Lai Ping, Theresa	✔	✔	✔	✔
Tsang Hon Nam	✔	✔	✔	✔
Non-Executive Directors				
Cai Yong (appointed on 25 August 2016)	N/A	✔	✔	✔
Wu Jianguo		✔	✔	✔
Zhang Hui	✔	✔	✔	✔
Zhao Chunxiao		✔	✔	✔
Lan Runing	✔	✔	✔	✔
Li Wai Keung	✔		✔	✔
Huang Zhenhai (resigned on 27 January 2016)	N/A	N/A	N/A	N/A
Independent Non-Executive Directors				
Chan Cho Chak, John	✔	✔	✔	✔
Li Kwok Po, David	✔	✔	✔	✔
Fung Daniel Richard			✔	✔
Cheng Mo Chi, Moses	✔		✔	✔
Wu Ting Yuk, Anthony	✔	✔	✔	✔

Board Diversity Policy

The Board has adopted a board diversity policy (the "Board Diversity Policy") on 28 August 2013 which sets out the approach to achieve diversity on the Board.

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in supporting the attainment of the Company's strategic objectives and sustainable development.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company also takes into consideration its own business model and specific needs from time to time. All Board appointments are based on meritocracy, and candidates are considered against objective criteria, having due regard to the benefits of diversity on the Board.

The Nomination Committee has set the measurable objectives based on five focused areas: gender, age, length of service, professional experience and skills and knowledge for the implementation of board diversity of the Company. The Nomination Committee reviews the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

As at the date of this report, the Board comprises 15 directors. Five of them are Independent Non-Executive Directors, thereby promoting critical review and control of the management process. The Board has maintained a balanced composition in terms of gender, age, professional experience, skills and knowledge, and has performed effectively.

Having reviewed the implementation of the Board Diversity Policy and the structure, size and composition of the Board, the Nomination Committee of the Board considered that the requirements of the Board Diversity Policy had been met.

Board Committees

The Board has established various committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Terms of Reference of these committees stipulating their respective authorities and responsibilities are available on the Company's website.

Remuneration Committee

The Remuneration Committee comprises all five Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony. Dr. Chan Cho Chak, John is the Chairman of the Remuneration Committee. The remuneration of the Directors shall be determined by the members of the Company at the general meetings. Approval has been granted by the shareholders at the annual general meeting in 2016 to authorise the Board to fix the remuneration of the Directors.

Remuneration of the Executive Directors and senior management shall be determined by the Remuneration Committee with reference to their duties, responsibilities and performance, and the results of the Group. No Director shall be involved in deciding his/her own remuneration.

The meeting of the Remuneration Committee shall be held at least once a year and when necessary. During the financial year ended 31 December 2016, the Remuneration Committee had held three meetings and had passed one written resolution to approve the remuneration package of the Executive Directors that came up for determination. The attendance of each member of the Remuneration Committee is set out in the section headed "Board and Committees Meetings" of this report.

Details of the amount of Directors' remuneration for the year 2016 are set out in note 8 to the financial statements.

Board Committees (continued)

Nomination Committee

The Nomination Committee comprises Mr. Huang Xiaofeng, Chairman of the Board, and all five Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony. Mr. Huang Xiaofeng is the Chairman of the Nomination Committee.

The Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the re-appointment of Directors and the succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters.

The meeting of the Nomination Committee shall be held at least once a year and when necessary. During the financial year ended 31 December 2016, the Nomination Committee held two meetings to evaluate the structure, size and composition of the Board, to review the implementation of the Company's Board Diversity Policy, to assess the independence of the Independent Non-Executive Directors and to make recommendations to the Board on the appointment of a Non-Executive Director and the re-election of Directors.

The attendance of each member of the Nomination Committee is set out in the section headed "Board and Committees Meetings" of this report.

Audit Committee

The Audit Committee comprises all five Independent Non-Executive Directors, being Dr. Li Kwok Po, David, Dr. Chan Cho Chak, John, Mr. Fung Daniel Richard, Dr. Cheng Mo Chi, Moses and Mr. Wu Ting Yuk, Anthony. Dr. Li Kwok Po, David is the Chairman of the Audit Committee.

The meetings of the Audit Committee shall be held at least twice a year and when necessary. During the financial year ended 31 December 2016, the Audit Committee had held four meetings to review, among other matters, the 2015 annual results, the 2016 quarterly and interim results of the Company before their submission to the Board as well as to monitor the integrity of such financial statements/financial information. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the nature and scope of their audit and work and approving their fees. In addition to the four meetings as aforesaid, the Audit Committee also had two private meetings with the external auditors to discuss any area of concern. The Audit Committee further ensures that the management has put in place effective risk management and internal control systems and maintains an overview of the Group's risk assessment, control and management processes. It reviews the continuing connected transactions of the Group during the year and the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions and their training programmes and budget. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function.

The attendance of each member of the Audit Committee is set out in the section headed "Board and Committees Meetings" of this report.

Board Committees (continued)

Board and Committees Meetings

The individual attendance records of each Director at the meetings of the Board, Remuneration Committee, Nomination Committee, Audit Committee and the annual general meeting during the year ended 31 December 2016 are set out below:

Name of Director	Board	Remuneration Committee	Nomination Committee	Audit Committee	Annual General Meeting
Executive Directors					
Huang Xiaofeng	5/6	–	1/2	–	1/1
Wen Yinheng	6/6	–	–	–	1/1
Ho Lam Lai Ping, Theresa	6/6	–	–	–	1/1
Tsang Hon Nam	6/6	–	–	–	1/1
Non-Executive Directors					
Cai Yong (appointed on 25 August 2016)	1/1	–	–	–	N/A
Wu Jianguo	4/6	–	–	–	1/1
Zhang Hui	6/6	–	–	–	1/1
Zhao Chunxiao	6/6	–	–	–	1/1
Lan Runing	6/6	–	–	–	1/1
Li Wai Keung	6/6	–	–	–	0/1
Huang Zhenhai (resigned on 27 January 2016)	0/1	–	–	–	N/A
Independent Non-Executive Directors					
Chan Cho Chak, John	6/6	3/3	2/2	4/4	1/1
Li Kwok Po, David	6/6	3/3	2/2	4/4	1/1
Fung Daniel Richard	4/6	1/3	1/2	2/4	1/1
Cheng Mo Chi, Moses	6/6	3/3	2/2	4/4	1/1
Wu Ting Yuk, Anthony	6/6	3/3	2/2	4/4	1/1

Accountability and Audit

Financial Reporting

The Board receives monthly management updates on the Group's performance and financial position and is responsible for overseeing the preparation of financial statements for each financial year.

The Directors have acknowledged their responsibility for preparing all information and representations contained in the financial statements of the Company for the year ended 31 December 2016, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2016, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual, interim and quarterly results of the Company are announced in a timely manner within the limit of three months, two months and 45 days respectively after the end of the relevant periods in accordance with the Listing Rules.

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's auditors, Ernst & Young is set out as follows:

Services rendered	Fee paid/payable HK$'000
Audit of financial statements	9,967
Review of interim results	1,530
Agreed-upon procedures on quarterly results	1,180
Total	12,677

Accountability and Audit (continued)

Risk Management and Internal Control

The Board is responsible for the Group's risk management and internal control systems and reviews their effectiveness annually. Such systems are designed to prudently manage the Group's risks within an acceptable risk profile. The Board has delegated to management the implementation of the risk management and internal control systems as well as the review of relevant financial, operational, compliance, risk management and internal control procedures.

The management under the supervision of the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the risk management and internal control systems when there are changes in business, external environment or regulatory guidelines.

The management assists the Board with the implementation of all relevant policies and procedures on risk and control by identifying and assessing the risks faced and designing, operating and monitoring suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the risk management and internal control systems include the following:

A defined management structure is maintained with specified limits of authority and control responsibilities, which is designed to (a) safeguard assets from inappropriate use; (b) maintain proper accounts; (c) ensure compliance with regulations; and (d) identify, manage and mitigate key risks to the Group.

The Audit Committee, among others, reviews the financial controls, risk management and internal control systems of the Group and any significant internal control issues identified by the internal audit department, external auditors and management. It also conducts review of the internal audit functions with particular emphasis on the scope and quality of management's on-going monitoring of risks and of the internal control systems and the work of the internal audits and independence of the internal audit department. During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, and their training programmes and budgets.

The internal audit department monitors compliance with policies and procedures and the effectiveness of the risk management and internal control systems and highlights significant findings in respect of any non-compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. The internal audit department issues reports to the Board and relevant management covering various operational and financial processes of the Group and provides summary reports to the Audit Committee together with the status of implementation of their recommendation in each Audit Committee meeting. In addition, the internal audit department reviews the continuing connected transactions of the Group and reports to the Audit Committee.

The Board is satisfied that the risk management and internal control systems in place covering all material controls including financial, operational and compliance controls and risk management functions for the year under review and up to the date of issuance of this Annual Report and accounts are reasonably effective and adequate.

Company Secretary

The Company Secretary reports to the Chairman and the Managing Director and all members of the Board have access to the advice and service of the Company Secretary.

Mrs. Ho Lam Lai Ping, Theresa has been the Company Secretary of the Company since December 1992. She is a full time employee with day-to-day knowledge of the Company's affairs and is supporting the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through adherence to proper Board processes and the timely preparation and dissemination to Directors comprehensive Board meeting agendas and papers. She advises the Board on the corporate governance matters, arranges induction programs including briefings on the general and specific duties of directors under legal and regulatory requirements for newly appointed Directors. She also facilitates the professional development of Directors.

For the year under review, Mrs. Ho has confirmed that she has taken over 15 hours of relevant professional training.

Shareholders' Rights

Shareholders convening an extraordinary general meeting

Shareholders are encouraged to attend all general meetings of the Company. Pursuant to the Hong Kong Companies Ordinance, shareholders of the Company holding not less than 5% of the total voting rights of all the members having a right to vote at general meeting may request the Directors to call a general meeting of the Company. The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. Directors of the Company must call a meeting within 21 days after the date on which they become subject to the requirement. The meeting being called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the Directors fail to call the meeting, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting. The meeting must be called for a date not more than 3 months after the date on which the Directors become subject to the requirement to call a meeting.

Details of the procedures for shareholders to propose a person for election as a Director of the Company are available on the Company's website.

Shareholders' Enquires and Proposals

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, or call its customer service hotline at (852) 2980 1333.

Shareholders' enquires and proposals can be made by mail or by phone. The contact details of the Company are set out in the subsection headed "IR Contact" under the "Investor Relations" section of the Company's website. In addition, the Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and to strengthen the communications with both the public and the shareholders. The Company has formulated the "Shareholders Communication Policy" which enables shareholders to exercise their rights in an informed manner.

Investor Relations

Communication with Shareholders

The Company actively promotes investor relations and communication with the investment community throughout the year under review. The Company responds to requests for information and queries from the investment community including shareholders, analysts and the media through regular briefing meetings, announcements, conference calls and presentations.

The Board is committed to providing clear and full information on the Company to shareholders through the publication of notices, announcements, circulars, interim and annual reports. Moreover, additional information on the Company is also available to shareholders and stakeholders through the "Investor Relations" page on the Company's website.

Constitutional Documents

During the year under review, no changes have been made to the constitutional documents of the Company. An up-to-date consolidated version of the Company's articles of association is available on the Company's website.

Environmental Policies and Performance

Environmental protection is one of the key focuses of the Group in fulfilling its corporate social responsibilities. The Government of the People's Republic of China requires environmental laws and regulations must be complied for all the applicable businesses. As the majority of the operations are in Mainland China, the Group strictly follows the above laws and regulations. The Group has relevant environmental policies in place for each business segment. For example, Teem Plaza and Teemall Department Stores have implemented a wide range of energy saving measures including energy usage review and lighting retrofit. The Group has also cooperated with its partners including tenants, customers and suppliers to support environmental protection. The Group requires the suppliers to operate in strict compliance with the relevant environmental regulations and rules. Their environmental performances are evaluated on a regular basis.

The management is not aware of any non-compliance of any of the relevant laws and regulations by the Company that has a significant impact on the Company during the year ended 31 December 2016 and up to the date of this report.

For further information about the environmental policies and performance of the Company for this financial year, please refer to the Company's first environmental, social and governance report to be issued.

Key Relationships with Stakeholders

The Group recognizes that employees, customers and suppliers and business associates are key stakeholders to the Group's success. The Group strives to achieve corporate sustainability through engaging employees, providing quality services to customers, collaborating with business partners (including suppliers and contractors) to deliver quality sustainable products and services and supporting the community.

The below paragraphs only briefly describe the Group's key relationships with stakeholders. For further information, please refer to the Company's first environmental, social and governance report to be issued.

Employees

Employees are one of the Group's most important assets. The Group ensures the recruitment policies are in compliance with the national regulations on equal opportunity and anti-discrimination. The Group also provides training and career development opportunities to attract and retain the Group's talents, who are pivotal to the business development.

A safe and healthy work environment is also provided to the employees. In the operations, the Group has dedicated safety management committees to oversee the related matters. For example, Guangdong Yue Gang Water Supply Company Limited has formulated an occupational health and safety committee which states the roles and responsibilities of each department in preventing potential occupational hazards.

Customers

Customers' satisfaction with the Group's products and services is key to the Group's business success. The Group has dedicated customer service teams to reach out to customers and listen to their feedbacks. Teemall Department Stores, for example, has conducted regular customer satisfaction survey and has service performance pledges to ensure the best services are provided to the customers.

Suppliers

All the Group's procurement processes are subject to open, fair and impartial bidding to select suitable suppliers. In addition, much emphasis has been put on industrial safety to ensure that suppliers are in compliance with the relevant local laws and regulations. The Group has also incorporated green procurement policies in the hotel business segment, which made a list of qualified suppliers and priorities are given to suppliers who supply environmentally friendly products.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 29 March 2017

INDEPENDENT AUDITOR'S REPORT

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To the members of Guangdong Investment Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Guangdong Investment Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 150, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties and investment properties under development	
As at 31 December 2016, the aggregate carrying amounts of investment properties and investment properties under development of the Group measured at fair value amounted to approximately HK$7,252 million and approximately HK$5,309 million, respectively, with a fair value gain of approximately HK$113 million recognised in the consolidated statement of profit or loss for the year ended 31 December 2016. The Group engaged an independent external valuer to perform valuations for investment properties and investment properties under development of the Group. The valuations involved significant management estimations and assumptions, including term yield, market yield, fair market rents and comparable sales transactions, which were sensitive to future market conditions. Relevant disclosures are included in notes 3 and 14 to the consolidated financial statements.	Our audit procedures included, among others, evaluating the independent external valuer's competence, capabilities and objectivity. We also involved our internal valuation specialists to evaluate the valuation methodologies, key assumptions and parameters applied on the valuations by benchmarking market comparables and normal market practice.
Impairment assessment of goodwill	
As at 31 December 2016, the carrying amount of the Group's goodwill amounted to approximately HK$301 million. Goodwill arisen through business combinations was allocated as part of the Group's cash-generating units ("CGUs") of water distribution operations and sewage treatment operations. The Group performs an impairment test for goodwill on an annual basis. This requires an estimation of the recoverable amount which has been determined based on a discounted cashflow forecast (value in use approach) of the respective cash-generating unit to which the goodwill is allocated. This involved the use of significant management estimations and assumptions to appropriately identify the CGUs and to determine key assumptions, including revenue growth rates, forecasted operating expenses and discount rates, applied in the value-in-use calculations. Relevant disclosures are included in notes 3 and 16 to the consolidated financial statements.	In evaluating management's impairment assessment, our procedures included, amongst others, evaluating the key assumptions and parameters including revenue growth rates and forecasted operating expenses used in the discounted cash flow forecasts with reference to the historical operating data of the relevant entities, comparing current performance to previous forecasts and performing sensitivity analyses on the forecasts. Further, we involved our internal valuation specialists to assess the valuation methodologies and the discount rates used by benchmarking comparable companies in the similar industries and normal market practice.

Other information included in the annual report

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

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

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

Responsibilities of the directors 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

We communicate with 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 this independent auditor's report is Fok Lai Ching.

Ernst & Young
Certified Public Accountants
Hong Kong

29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	5	**10,464,202**	9,171,959
Cost of sales		**(3,583,988)**	(3,027,980)
Gross profit		**6,880,214**	6,143,979
Other income and gains	5	**551,805**	812,632
Changes in fair value of investment properties		**112,504**	131,801
Selling and distribution expenses		**(242,471)**	(217,488)
Administrative expenses		**(1,398,197)**	(1,344,598)
Exchange differences, net		**(220,791)**	(491,449)
Other operating income, net		**19,596**	22,386
Finance costs	7	**(129,635)**	(136,094)
Share of profits less losses of associates		**179,005**	325,079
PROFIT BEFORE TAX	6	**5,752,030**	5,246,248
Income tax expense	10	**(1,099,632)**	(956,949)
PROFIT FOR THE YEAR		**4,652,398**	4,289,299
Attributable to:			
Owners of the Company		**4,212,037**	3,905,277
Non-controlling interests		**440,361**	384,022
		4,652,398	4,289,299
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK67.25 cents**	HK62.45 cents
Diluted		**HK67.20 cents**	HK62.35 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**4,652,398**	4,289,299
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(1,802,026)**	(1,239,800)
Reclassification adjustments for a foreign operation dissolved during the year	**5,828**	–
	(1,796,198)	(1,239,800)
Net loss on available-for-sale financial assets	**(7,330)**	(2,931)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(1,803,528)**	(1,242,731)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(1,803,528)**	(1,242,731)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,848,870**	3,046,568
Attributable to:		
Owners of the Company	**2,823,645**	2,980,340
Non-controlling interests	**25,225**	66,228
	2,848,870	3,046,568

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**6,691,743**	7,083,391
Investment properties	14	**12,561,194**	12,326,764
Prepaid land lease payments	15	**264,498**	295,013
Goodwill	16	**301,150**	303,521
Investments in associates	17	**1,716,163**	1,892,870
Operating concession rights	18(a)	**14,140,407**	15,218,717
Receivables under service concession arrangements	18(b)	**417,289**	437,785
Available-for-sale financial assets	19	**5,191**	–
Prepayments and deposits	21	**64,167**	13,481
Deferred tax assets	27	**61,507**	46,726
Pledged bank deposits	22	**22,358**	–
Total non-current assets		**36,245,667**	37,618,268
CURRENT ASSETS			
Available-for-sale financial assets	19	**7,623,090**	6,228,797
Tax recoverable		**5,996**	17,080
Inventories	20	**126,209**	143,056
Receivables under service concession arrangements	18(b)	**10,247**	9,429
Receivables, prepayments and deposits	21	**803,200**	736,655
Due from non-controlling shareholders of subsidiaries	24	**93,548**	61,521
Pledged bank deposits	22	**27,948**	–
Cash and bank balances	22	**7,194,452**	9,295,184
Total current assets		**15,884,690**	16,491,722
CURRENT LIABILITIES			
Payables and accruals	23	**(3,642,799)**	(4,385,265)
Tax payable		**(718,108)**	(468,897)
Due to non-controlling shareholders of subsidiaries	24	**(199,673)**	(367,981)
Bank and other borrowings	25	**(1,012,138)**	(556,236)
Total current liabilities		**(5,572,718)**	(5,778,379)
NET CURRENT ASSETS		**10,311,972**	10,713,343
TOTAL ASSETS LESS CURRENT LIABILITIES – page 59		**46,557,639**	48,331,611

	Notes	2016 HK$'000	2015 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES – page 58		**46,557,639**	48,331,611
NON-CURRENT LIABILITIES			
Bank and other borrowings	*25*	**(4,415,680)**	(7,015,960)
Other liabilities	*26*	**(1,389,413)**	(1,312,009)
Deferred tax liabilities	*27*	**(2,513,860)**	(2,736,217)
Total non-current liabilities		**(8,318,953)**	(11,064,186)
Net assets		**38,238,686**	37,267,425
EQUITY			
Equity attributable to owners of the Company			
Share capital	*28*	**5,789,737**	5,711,660
Reserves	*30*	**26,432,231**	25,760,484
		32,221,968	31,472,144
Non-controlling interests		**6,016,718**	5,795,281
Total equity		**38,238,686**	37,267,425

Huang Xiaofeng
Director

Tsang Hon Nam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Notes	Attributable to owners of the Company												
		Share capital HK$'000	Share option reserve HK$'000 (note 30(ii))	Asset revaluation reserve HK$'000	Capital reserve HK$'000 (note 30(iv))	Available-for-sale financial assets revaluation reserve HK$'000	Expansion fund reserve HK$'000 (note 30(iii))	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Special reserve HK$'000 (note 30(i))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015		5,595,013	45,120	44,958	1,495,954	24,079	1,814,038	1,466,501	96,027	132,204	19,552,850	30,266,744	5,397,407	35,664,151
Profit for the year		–	–	–	–	–	–	–	–	–	3,905,277	3,905,277	384,022	4,289,299
Other comprehensive loss for the year:														
Exchange differences related to foreign operations														
– Subsidiaries		–	–	–	–	–	–	(822,767)	–	–	–	(822,767)	(317,794)	(1,140,561)
– Associates		–	–	–	–	–	–	(99,239)	–	–	–	(99,239)	–	(99,239)
Net loss on available-for-sale financial assets		–	–	–	–	(2,931)	–	–	–	–	–	(2,931)	–	(2,931)
Total comprehensive income/(loss) for the year		–	–	–	–	(2,931)	–	(922,006)	–	–	3,905,277	2,980,340	66,228	3,046,568
Change in ownership interests in subsidiaries		–	–	–	–	–	–	–	1,019	–	–	1,019	3,979	4,998
Acquisitions of subsidiaries	*32*	–	–	–	–	–	–	–	–	–	–	–	335,866	335,866
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(27)	(27)
Capital injection of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	193,820	193,820
Share options exercised, net of share issue expenses	*28*	116,647	(25,099)	–	–	–	–	–	–	–	–	91,548	–	91,548
Equity-settled share option arrangements	*29*	–	9,008	–	–	–	–	–	–	–	–	9,008	–	9,008
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(201,992)	(201,992)
Transfer from retained profits		–	–	–	–	–	250,728	–	–	–	(250,728)	–	–	–
Final 2014 dividend paid		–	–	–	–	–	–	–	–	–	(1,251,010)	(1,251,010)	–	(1,251,010)
Interim 2015 dividend paid	*11*	–	–	–	–	–	–	–	–	–	(625,505)	(625,505)	–	(625,505)
Transfer from retained profits in accordance with the Undertaking	*30(i)*	–	–	–	–	–	–	–	–	87,551	(87,551)	–	–	–
Transfer to retained profits upon issue of new ordinary shares	*30(i)*	–	–	–	–	–	–	–	–	(91,548)	91,548	–	–	–
At 31 December 2015		5,711,660	29,029	44,958	1,495,954	21,148	2,064,766	544,495	97,046	128,207	21,334,881	31,472,144	5,795,281	37,267,425

	Notes	Share capital HK$'000	Share option reserve HK$'000 (note 30(ii))	Asset revaluation reserve HK$'000	Capital reserve HK$'000 (note 30(iv))	Available-for-sale financial assets revaluation reserve HK$'000	Expansion fund reserve HK$'000 (note 30(iii))	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Special reserve HK$'000 (note 30(i))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the Company												
At 1 January 2016		5,711,660	29,029*	44,958*	1,495,954*	21,148*	2,064,766*	544,495*	97,046*	128,207*	21,334,881*	31,472,144	5,795,281	37,267,425
Profit for the year		–	–	–	–	–	–	–	–	–	4,212,037	4,212,037	440,361	4,652,398
Other comprehensive loss for the year:														
Exchange differences related to foreign operations														
– Subsidiaries		–	–	–	–	–	–	(1,284,164)	–	–	–	(1,284,164)	(418,289)	(1,702,453)
– Associates		–	–	–	–	–	–	(99,573)	–	–	–	(99,573)	–	(99,573)
Realisation of exchange fluctuation reserve upon dissolution of a subsidiary		–	–	–	–	–	–	2,675	–	–	–	2,675	3,153	5,828
Net loss on available-for-sale financial assets		–	–	–	–	(7,330)	–	–	–	–	–	(7,330)	–	(7,330)
Total comprehensive income/(loss) for the year		–	–	–	–	(7,330)	–	(1,381,062)	–	–	4,212,037	2,823,645	25,225	2,848,870
Acquisition of non-controlling interest in a subsidiary		–	–	–	–	–	–	–	(105,131)	–	–	(105,131)	(5,534)	(110,665)
Realisation of reserves upon dissolution of a subsidiary		–	–	–	233,920	–	(11,766)	–	–	–	–	222,154	(37,288)	184,866
Acquisition of a subsidiary	*32*	–	–	–	–	–	–	–	–	–	–	–	20,272	20,272
Capital injection of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	433,838	433,838
Share options exercised, net of share issue expenses	*28*	78,077	(16,802)	–	–	–	–	–	–	–	–	61,275	–	61,275
Equity-settled share option arrangements	*29*	–	3,192	–	–	–	–	–	–	–	–	3,192	–	3,192
Share options lapsed	*29*	–	(101)	–	–	–	–	–	–	–	101	–	–	–
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(215,076)	(215,076)
Transfer from retained profits		–	–	–	–	–	252,342	–	–	–	(252,342)	–	–	–
Final 2015 dividend paid		–	–	–	–	–	–	–	–	–	(1,503,519)	(1,503,519)	–	(1,503,519)
Interim 2016 dividend paid	*11*	–	–	–	–	–	–	–	–	–	(751,792)	(751,792)	–	(751,792)
Transfer from retained profits in accordance with the Undertaking	*30(i)*	–	–	–	–	–	–	–	–	13,920	(13,920)	–	–	–
Transfer to retained profits upon issue of new ordinary shares	*30(i)*	–	–	–	–	–	–	–	–	(61,275)	61,275	–	–	–
At 31 December 2016		5,789,737	15,318*	44,958*	1,729,874*	13,818*	2,305,342*	(836,567)*	(8,085)*	80,852*	23,086,721*	32,221,968	6,016,718	38,238,686

* *These reserve accounts comprise the consolidated reserves of HK$26,432,231,000 (2015: HK$25,760,484,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,752,030**	5,246,248
Adjustments for:			
Finance costs	*7*	**129,635**	136,094
Share of profits less losses of associates		**(179,005)**	(325,079)
Interest income	*5*	**(202,674)**	(146,705)
Interest income from available-for-sale financial assets	*5*	**(157,041)**	(345,109)
Investment income from available-for-sale financial assets	*5*	**(82,064)**	(165,176)
Depreciation	*6*	**403,060**	274,776
Recognition of prepaid land lease payments	*6*	**10,647**	8,546
Amortisation of operating concession rights	*6*	**944,603**	841,069
Changes in fair value of investment properties		**(112,504)**	(131,801)
Equity-settled share option benefits	*6*	**3,192**	9,008
Loss on disposal of items of property, plant and equipment, net	*6*	**77**	4,616
Gains on bargain purchase	*5*	**–**	(63,899)
Exchange losses		**201,261**	449,312
Impairment losses recognised/(reversed) on trade receivables, net	*6*	**(7,944)**	2,322
Reversal of impairment on an investment in an associate	*6*	**–**	(21,403)
Operating profit before working capital changes		**6,703,273**	5,772,819
Decrease/(increase) in inventories		**8,132**	(21,163)
Decrease/(increase) in receivables, prepayments and deposits		**(280,707)**	138,495
Decrease in payables and accruals and other liabilities		**(44,162)**	(239,390)
Movement in balances with non-controlling shareholders of subsidiaries, net		**(27,879)**	(130,033)
Cash generated from operations – page 63		**6,358,657**	5,520,728

	Notes	2016 HK$'000	2015 HK$'000
Cash generated from operations – page 62		**6,358,657**	5,520,728
Interest received		**359,715**	491,814
Dividends from associates		**259,493**	293,695
Hong Kong profits tax paid		**(13,700)**	(446)
Mainland China tax paid		**(865,566)**	(876,399)
Net cash flows from operating activities		**6,098,599**	5,429,392
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement in available-for-sale financial assets		**(1,796,372)**	1,708,009
Purchases of items of property, plant and equipment		**(507,250)**	(1,373,600)
Additions to operating concession rights	*18(a)*	**(53,045)**	(63,070)
Additions to prepaid land lease payments	*15*	**–**	(20,305)
Additions to investment properties		**(771,816)**	(634,063)
Acquisition of subsidiaries	*32*	**(12,106)**	(3,077,221)
Acquisitions of non-controlling interests		**(105,131)**	(44,161)
Proceeds from disposal of partial interests in non-controlling subsidiaries		**–**	4,998
Increase in investments in associates, net		**(3,354)**	(179,708)
Settlement of a loan to an associate		**–**	86,176
Proceeds from disposal of items of property, plant and equipment		**2,098**	1,490
Increase in pledged bank deposits		**(52,619)**	–
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**366,568**	(951,588)
Settlement of consideration payable for acquisition of a subsidiary in the prior year		**(333,821)**	–
Net cash flows used in investing activities		**(3,266,848)**	(4,543,043)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new ordinary shares	*28*	**61,275**	91,548
New bank and other loans		**145,971**	6,086,177
Repayments of bank and other loans		**(2,277,860)**	(3,277,456)
Interest paid		**(129,635)**	(136,094)
Increase in an amount due to a fellow subsidiary		**–**	31,103
Increase in loans from a fellow subsidiary		**419,451**	–
Decrease in loans from the ultimate holding company		**(307,573)**	–
Capital contribution from non-controlling shareholders of subsidiaries		**433,838**	193,820
Increase in an amount due to a non-controlling shareholder of a subsidiary		**–**	15,025
Dividends paid to non-controlling shareholders		**(208,240)**	(173,010)
Dividends paid to shareholders		**(2,255,311)**	(1,876,515)
Net cash flows from/(used in) financing activities		**(4,118,084)**	954,598
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,286,333)**	1,840,947
Cash and cash equivalents at beginning of year		**8,095,092**	6,696,200
Effect of foreign exchange rate changes, net		**(397,717)**	(442,055)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,411,042**	8,095,092
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**3,108,015**	3,976,928
Non-pledged time deposits with original maturity of less than three months when acquired	*22*	**3,303,027**	4,118,164
Cash and cash equivalents as stated in the consolidated statement of cash flows		**6,411,042**	8,095,092

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. Corporate and Group Information

Guangdong Investment Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 28/F. and 29/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

During the year, the Group was principally engaged in investment holding, water resources, property investment and development, department store operation, hotel ownership, operation and management, investment in energy projects, road and bridge operation.

GDH Limited is the immediate holding company of the Company. In the opinion of the directors, the ultimate holding company of the Group is 廣東粵海控股集團有限公司 (Guangdong Holdings Limited▲) ("Guangdong Holdings"), a company established in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

Information about subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2016 are as follows:

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Global Head Developments Limited ("Global Head")	British Virgin Islands/ Hong Kong	US$1	100%	–	Property investment
Fill Success Investments Limited	Hong Kong	HK$2 ordinary HK$2 non-voting deferred	–	100%	Hotel ownership
GH Water Supply (Holdings) Limited ("GH Water Holdings")(7)*	Cayman Islands/ Hong Kong	HK$1,000,000 ordinary HK$100 Class A special shares	96%	–	Investment holding
廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited▲) ("GD Teem")(1)*	Mainland China	RMB840,000,000	11.51%	64.62%	Property investment and investment holding
Guangdong Hotel Limited	Hong Kong	HK$2 ordinary HK$5,000,000 non-voting deferred	–	100%	Hotel ownership and operation
Guangdong (International) Hotel Management Holdings Limited	Hong Kong	HK$10,000,000	100%	–	Hotel management
Guangdong Nan Fang (Holdings) Co. Ltd*	British Virgin Islands/ Mainland China	US$10,000	100%	–	Property investment
Guangdong Power (International) Limited ("GPIL")	British Virgin Islands/ Hong Kong	US$8,690,750	51%	–	Investment holding
Guangdong Properties Holdings Limited	Hong Kong	HK$2	100%	–	Investment holding
廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.▲)(4)*	Mainland China	RMB50,000,000	–	85.20%	Department store operation

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

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

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Guangdong Yue Gang Water Supply Company Limited ("WaterCo")(2)(6)*	Mainland China	HK$6,116,000,000	–	95.04%	Water distribution operation
Sen International Ventures Corporation (Hong Kong) Limited	Hong Kong	HK$2	–	100%	Hotel operation
深圳粵海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.▲)(2)*	Mainland China	HK$40,000,000	99%	–	Hotel ownership and operation
珠海粵海酒店 (Guangdong Hotel (Zhu Hai)▲)(3)*	Mainland China	US$10,000,000	–	100%	Hotel ownership and operation
Yue Sheng Finance Limited	Hong Kong	HK$2	100%	–	Finance
中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.▲) ("ZS Thermal Power")(2)*	Mainland China	RMB1,114,688,900	–	71.25%	Power plant operation
廣州市天河城萬博百貨有限公司(4)*	Mainland China	RMB1,000,000	–	85.20%	Department store operation
廣東粵海投資財務管理有限公司(3)*	Mainland China	RMB10,000,000	100%	–	Finance
廣州市萬亞投資管理有限公司 (Guangzhou City Wanye Investment Management Company Limited▲) ("Wanye")(4)(5)(10)*	Mainland China	RMB230,000,000	–	31.06%	Property investment and development
Tianjin Teem Shopping Center Co., Ltd.(3)	Mainland China	RMB1,810,000,000	–	76.02%	Property investment and development
海南儋州自來水有限公司 (Hainan Danzhou Tap Water Company Limited▲)(3)	Mainland China	HK$30,000,000	–	70%	Water distribution operation
五華粵海環保有限公司 (Wuhua Yuehai Huanbao Co., Ltd.▲)(3)	Mainland China	RMB30,000,000	–	100%	Sewage treatment operation
開平粵海水務有限公司 (Kaiping Guangdong Water Co., Ltd.▲)(4)	Mainland China	RMB17,500,000	–	54.29%	Sewage treatment operation
東莞市常平金勝水務有限公司 (Dongguan Changping Jinsheng Water Co., Ltd.▲) ("Jinsheng Water Co")(4)(9)	Mainland China	RMB35,000,000	–	90.1%	Sewage treatment operation

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

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

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
東莞市道滘鴻發污水處理有限公司 (Dongguan Daojiao Hongfa Sewage Treatment Co., Ltd.▲) (3)(4)	Mainland China	RMB11,000,000	–	100%	Sewage treatment operation
梅州粵海水務有限公司 (Meizhou Guangdong Water Co., Ltd.▲)(2)	Mainland China	RMB200,000,000	–	70%	Water distribution and sewage treatment operation
China City Water Supply Investment Holding Limited ("China City Water Supply")(8)	Cayman Islands/ Hong Kong	US$10,000	–	100%	Investment holding
Cititrend Industrial Limited(8)	Hong Kong	HK$2	–	100%	Investment holding
梧州粵海環保發展有限公司 (Wuzhou Yuehai Huanbao Fazhan Company Limited▲)(4)(8)	Mainland China	RMB46,000,000	–	86.96%	Sewage treatment operation
儀征港儀供水有限公司 (Yizheng Gangyi Water Supply Company Limited▲)(2)(4)(8)	Mainland China	RMB116,400,000	–	60%	Water distribution operation
高郵港郵供水有限公司 (Gaoyou Gangyou Water Supply Company Limited▲)(2)(4)(8)	Mainland China	RMB71,400,000	–	60%	Water distribution operation
Zhaoqing HZ GDH Water Co., Ltd.(2)(4)(8)	Mainland China	RMB116,022,700	–	70%	Water distribution operation
寶應粵海水務有限公司 (Baoying Yuehai Water Company Limited▲)(2)(4)(8)	Mainland China	RMB56,950,000	–	70%	Water distribution operation
梧州粵海江河水務有限公司 (Wuzhou Yuehai Jianghe Water Company Limited▲)(2)(4)(8)	Mainland China	RMB110,000,000	–	51%	Water distribution operation
珠海海潤水業有限公司 (Zhuhai Hairun Shuiye Company Limited▲)(3)(8)	Mainland China	RMB300,000,000	–	100%	Investment holding
Rosy Canton Limited ("Rosy Canton")(8)	British Virgin Islands	US$1	100%	–	Investment holding
廣西新長江高速公路有限責任公司 (Guangxi Xinchangjiang Gonglu Company Limited▲) ("Xinchangjiang")(4)(8)	Mainland China	RMB518,000,000	–	100%	Toll road operation

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

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

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
深圳海昇水務有限公司 (Shenzhen Haisheng Water Co., Ltd.▲)[3]	Mainland China	RMB1,000,000	–	100%	Investment holding
東莞市清溪粵海水務有限公司 (Dongguan Qingxi Guangdong Water Co., Ltd.▲) ("Qingxi Water Co")[4][8][10]	Mainland China	RMB180,000,000	–	43.86%	Water distribution operation
遂溪粵海水務有限公司 (Suixi Guangdong Water Company Limited▲) ("Suixi Water Co")[11][12]	Mainland China	RMB60,000,000	–	70%	Water distribution and sewage treatment operation
汕尾粵海環保有限公司 (Shanwei Yuehai Huanbao Co., Ltd.▲)[4][11]	Mainland China	RMB75,000,000	–	80%	Sewage treatment operation
開平粵海污水處理有限公司 (Kaiping Yuehai Sewage Treatment Co., Ltd.▲)[4][11]	Mainland China	RMB18,500,000	–	54.29%	Sewage treatment operation
五華粵海清源環保有限公司 (Wuhua Yuehai Qingyuan Huanbao Co., Ltd.▲)[4][11]	Mainland China	RMB10,000,000	–	100%	Sewage treatment operation
深圳昇潤工程有限公司 (Shenzhen Shengrun Engineering Co., Ltd.▲)[4][11]	Mainland China	RMB4,650,000	–	100%	Water supply construction work operation
興寧粵海環保有限公司 (Xingning Yuehai Huanbao Co., Ltd.▲)[3][11]	Mainland China	RMB9,660,000	–	100%	Sewage treatment operation
東莞粵海銀瓶開發建設有限公司 (Dongguan Yuehai Yinping Development and Construction Limited ▲) ("Dongguan Yuehai Yinping")[3][11][15]	Mainland China	RMB1,585,700,000	100%	–	Construction and management of road operation
海南儋州粵海水務有限公司 (Hainan Danzhou Guangdong Water Company Limited▲) ("Danzhou Water Co")[11][13]	Mainland China	RMB140,124,100	76.2%	–	Water distribution and sewage treatment operation
高州粵海水務有限公司 (Gaozhou Guangdong Water Company Limited▲) ("Gaozhou Water Co")[11][14]	Mainland China	RMB196,078,400	51%	–	Water distribution operation

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

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

Notes:

(1) Sino-foreign equity joint venture.

(2) Sino-foreign co-operative joint venture.

(3) Wholly-foreign-owned enterprise.

(4) Limited company established in Mainland China.

(5) During the year ended 31 December 2016, no paid-up capital was contributed by the Group (2015: Nil) and RMB716,800,000 (2015: Nil) was contributed by the Group as capital reserve to Wanye. An amount of RMB179,200,000 will be further contributed to Wanye as capital reserve by 2017.

(6) Pursuant to WaterCo's articles of association, Guangdong Holdings, which directly holds a 1% equity interest in WaterCo, is not entitled to receive any distributed profits of WaterCo for the first fifteen years of operation (the "Period"). 100% of the distributed profits of WaterCo for the Period shall be made to GH Water Holdings, its holding company holding a 99% equity interest. Starting from the sixteenth year of WaterCo's operation (from 18 August 2015 onwards), 1.01% of the distributed profits of WaterCo for the Period plus simple interest at a rate of 8% per annum on the unpaid amount of the distributed profits shall be made to Guangdong Holdings (collectively referred to as the "Deferred Dividend"). Once Guangdong Holdings has received the Deferred Dividend in full, all of WaterCo's distributable profits will be distributed to GH Water Holdings and Guangdong Holdings according to their respective equity interests in WaterCo for the remaining operating period.

(7) During the year ended 31 December 2015, the Group acquired additional interests in GH Water Holdings from the respective non-controlling shareholders.

(8) The subsidiaries were acquired by the Group during the year ended 31 December 2015, further details of which are set out in note 32 to these financial statements.

(9) During the year ended 31 December 2015, the Group disposed of a 9.9% equity interest in Jinsheng Water Co to an independent third party.

(10) Wanye and Qingxi Water Co are subsidiaries of non-wholly owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

(11) The subsidiaries were established by the Group during the year ended 31 December 2016.

(12) During the year ended 31 December 2016, the Group contributed RMB25,200,000 to Suixi Water Co as paid-up capital. RMB16,800,000 will be contributed to Suixi Water Co by 2017.

(13) During the year ended 31 December 2016, the Group contributed RMB20,000,000 to Danzhou Water Co as paid-up capital. RMB86,775,000 will be contributed to Hainan Danzhou Guangdong Water Company Limited by 2017.

(14) During the year ended 31 December 2016, the Group contributed RMB100,000,000 to Gaozhou Water Co as paid-up capital. RMB96,078,400 will be contributed by non-controlling shareholder by instalments.

(15) During the year ended 31 December 2016, the Group contributed RMB324,900,000 to Dongguan Yuehai Yinping as paid-up capital. RMB1,260,800,000 will be contributed by the Group by instalments.

* *Subsidiaries for which the statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network*

▲ *The English name of the entity marked with a "▲" is a translation of its Chinese name, and is included herein and in other sections of this Annual Report for identification purposes only. In the event of any inconsistency, the Chinese name shall prevail.*

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

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and available-for-sale financial assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are 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. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
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 HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Other than as explained below, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any disposal group held for sale during the year.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Annual Improvements 2014-2016 Cycle	Amendments to a number of HKFRSs[1,2]

1 *Effective for annual periods beginning on or after 1 January 2017*
2 *Effective for annual periods beginning on or after 1 January 2018*
3 *Effective for annual periods beginning on or after 1 January 2019*
4 *No mandatory effective date yet determined but is available for adoption*

Further information about certain of those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

Except for the above, the Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. The non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Fair value measurement

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less cost of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 Summary of Significant Accounting Policies (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Hotel properties	2.30% – 5%
Land and buildings	2% – 5%
Tunnels, dams, water mains, reservoirs and pipelines	3% – 9%
Plant and machinery	4% – 25%
Furniture, fixtures and equipment	4% – 32%
Leasehold improvements	Over the shorter of three to five years and the lease terms
Motor vehicles	8% – 30%

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transactions costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Properties under development for future use as investment properties have been accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under development are capitalised as part of the carrying amounts of the investment properties under development. Investment properties under development are measured at fair value as at the end of the reporting period. Any difference between the fair values of the investment properties under development and their carrying amounts is recognised in the statement of profit or loss in the period in which they arise.

If the fair value of an investment property under development is at present not reliably determinable but is expected to be reliably determinable when construction is complete, such investment property under development is stated at cost until either its fair value becomes reliably determinable or development is completed, whichever is earlier.

2.4 Summary of Significant Accounting Policies (continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment or intangible assets.

Service concession arrangements

A service concession arrangement refers to a contractual service arrangement granted by a government authority in Mainland China (the "Grantor") to allow the Group to operate an infrastructure to provide service to the public. Such arrangement involves the Group to develop, finance, operate, and maintain the public-service infrastructure for a specified period of time for a service fee. At the end of the service period, the Group is obliged to hand over the infrastructure to the Grantor in a specified condition for little or no incremental consideration.

Such service concession arrangement is governed by a contract between the Group and the relevant Grantor which sets out, inter alia, performance standards, the mechanism for service fee adjustment, specific obligations of the Group for the maintenance of the infrastructure and arrangement for arbitrating disputes.

A service concession arrangement is recognised as a financial asset – *Receivable under a service concession arrangement* when (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 service 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 the specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. Receivable under a service concession arrangement is accounted for as loans and receivables under the accounting policy for "Investments and other financial assets".

A service concession arrangement is recognised as an intangible asset – *Operating concession rights* when 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 to the extent that the public uses the service. An operating concession right is accounted for in accordance with the accounting policy for "Intangible assets (other than goodwill)".

If the Group is paid partly by a financial asset and partly by an intangible asset, in such 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.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill) (continued)

Amortisation of operating concession rights other than a toll road is provided on the straight-line basis to write off their costs over the concession periods of the respective service concession arrangements.

Amortisation of a toll road is provided to write off the costs on a unit-of-usage basis where the amortisation is provided based on the share of traffic volume in a particular period over the projected total traffic volume throughout the service concession periods. It is the Group's policy to review regularly, the projected total traffic volume throughout the concession periods of the respective service concession arrangements. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

Investments and other financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in revenue or other income, as appropriate, in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are financial assets with fixed and determinable payments that are designated as available for sale.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial assets revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale financial asset revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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). The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increase in the fair value after impairment are recognised directly in other comprehensive income.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as other income in the statement of profit or loss. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, as appropriate.

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

The Group's financial liabilities include payables and accruals, other liabilities, amounts due to non-controlling shareholders of subsidiaries, and bank and other borrowings.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

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

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

Financial guarantee contracts

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

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Deferred revenue

Deferred revenue consists of a prepaid rental fee received from a tenant and coupon liabilities recognised for credit awards granted to customers in accordance with the credit award programme.

Revenue from the prepaid rental fee is recognised as rental income on a time proportion basis over the lease term.

Coupon liabilities are recognised based on the fair value of credit awards granted to customers in accordance with the credit award programme and the Group's past experience on the level of redemption of credit awards, and are recorded in payables and accruals. Revenue of the Group is deducted when the credit awards are recognised.

2.4 Summary of Significant Accounting Policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 Summary of Significant Accounting Policies (continued)

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

(b) commissions from concessionaire sales, upon the sale of goods by the department stores;

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

(d) from the sale of water:

  (i) with respect to the sale of water to the Hong Kong Special Administrative Region (''HKSAR''), based on a fixed amount for a target volume of water supplied; and

  (ii) with respect to the sale of water in the PRC, based on the volume of water supplied;

(e) from sewage treatment and related services, in the period in which such services are rendered;

(f) from construction services, based on the accounting policy for "Construction contracts";

(g) from the sale of electricity, based on the consumption recorded by meter readings;

(h) hotel revenue from room rental, food and beverage sales, when the services are rendered;

(i) from hotel management services, in the period in which such services are rendered;

(j) toll revenue from road and bridge operation, upon the passage of vehicles through the expressway;

Revenue recognition (continued)

(k) interest from available-for-sale financial assets, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets;

(l) investment income from available-for-sale financial assets upon maturity of investments; and

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

Construction contracts

Construction contracts refer to services rendered in construction of the infrastructure under service concession arrangements. Where a financial asset is recognised under a service concession arrangement, the amount received and receivable for the construction service is measured initially at fair value. It is subsequently measured at amortised cost, i.e. the amount initially recognised plus the cumulative interest on the amount minus repayments. Where an intangible asset is recognised under a service concession arrangement, the construction value of the related asset is classified as a right to receive a licence to charge users of the infrastructure. The Group measures the fair value of the consideration received and receivable at a rate consistent with the prevailing market rate that is applicable to similar construction service rendered in a similar location at the date of entering into the related agreement, and is recognised by reference to the stage of completion of the construction.

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

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

Share-based arrangements

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based arrangements, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 Summary of Significant Accounting Policies (continued)

Share-based arrangements (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based arrangements, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its eligible employees. Contributions are made based on a percentage of the employees' basic salaries/relevant income and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer mandatory contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are proportionately refunded to the Group upon the employee's termination of services in accordance with the vesting scales of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes (the "CP Schemes") operated by the respective local municipal governments. These subsidiaries are required to contribute certain percentages of their payroll costs to the CP Schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the CP Schemes.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries and associates operating in Mainland China are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, cash flows of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

(i) Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(ii) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

(ii) Classification between investment properties and owner-occupied properties (continued)

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(iii) Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(iv) Classification between intangible assets or financial assets and property, plant and equipment under service concession arrangements

The Group makes judgement in determining whether a service concession arrangement is classified as an intangible asset or financial asset in accordance with HK(IFRIC)-Int 12, or as property, plant and equipment in accordance with HKAS 16. For a service concession arrangement where (a) the Grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the Grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, no property, plant and equipment is recognised.

The Group further determines whether a financial asset exists to the extent that (a) it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Grantor; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group will otherwise recognise a service concession arrangement as an intangible asset if the above conditions are not fulfilled.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty

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

(i) Estimation of fair values of investment properties and recoverable amounts of construction in progress

The best evidence of fair value is current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and

(c) discounted cash flow projections, based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The carrying amounts of investment properties and construction in progress as at 31 December 2016 were HK$12,561,194,000 (2015: HK$12,326,764,000) and HK$320,966,000 (2015: HK$2,586,886,000), respectively.

(ii) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances. The carrying amount of property, plant and equipment, excluding construction in progress, as at 31 December 2016 was HK$6,370,777,000 (2015: HK$4,496,505,000).

(iii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2016 was HK$301,150,000 (2015: HK$303,521,000) in aggregate. Further details of impairment test of goodwill are set out in note 16 to the financial statements.

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

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

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(v) Impairment of receivables

The policy for provision for impairment of receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amount of receivables as at 31 December 2016 was HK$1,221,299,000 (2015: HK$1,143,396,000).

(vi) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There was no deferred tax asset relating to tax losses recognised as at 31 December 2016 and 2015. The amount of unrecognised tax losses as at 31 December 2016 was HK$748,456,000 (2015: HK$716,280,000). Further details are set out in note 27 to the financial statements.

(vii) Deferred tax liabilities of withholding taxes

Deferred tax liabilities are recognised in respect of the unremitted earnings of the PRC subsidiaries and associates generated subsequent to 1 January 2008, except to the extent that the parent or investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, which is based upon the estimated timing of dividend distribution. The carrying amount of deferred tax liabilities in respect of withholding tax as at 31 December 2016 was HK$576,888,000 (2015: HK$693,164,000).

(viii) Fair value of available-for-sale financial assets

The available-for-sale financial assets have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The carrying amount of available-for-sale financial investments as at 31 December 2016 was HK$7,623,090,000 (2015: HK$6,228,797,000).

(ix) Percentage of completion of construction contracts

The Group recognises revenue from construction contracts in relation to the service concession arrangements according to the percentage of completion of the respective contracts. The Group's management estimates the percentage of completion of the construction based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken, the date at which the activity is entered into and the date when the activity is completed may fall into different accounting periods, the Group reviews and revises the estimates of both the contract revenue and the contract costs in the budget prepared for each construction contract as the contract progresses.

(x) Fair value of operating concession rights and receivables under service concession arrangements

The Group recognises consideration received or receivable as a financial asset or an intangible asset at the fair value of the service concession arrangements.

The estimation of the consideration of a service concession arrangement as a financial asset or an intangible asset, where applicable, requires the Group to make an estimate of a number of factors, which include, inter alia, the fair value of the construction services provided, if applicable, expected level of services to be provided by the Group over the service concession period, guaranteed receipts and unguaranteed receipts, and an appropriate discount rate in order to calculate the present value of these cash flows. These estimates are determined by the Group's management based on its experience and assessment on current and future market conditions. The carrying amounts of operating concession rights and receivables under service concession arrangements as at 31 December 2016 were HK$14,140,407,000 (2015: HK$15,218,717,000) and HK$427,536,000 (2015: HK$447,214,000), respectively.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has seven reportable operating segments as follows:

(i) The property investment and development segment mainly invests in various properties in Hong Kong and Mainland China that are held for rental income purposes and engages in the development of properties in Mainland China. This segment also provides property management services to certain commercial properties;

(ii) The department store segment operates department stores in Mainland China;

(iii) The water resources segment operates water distribution and sewage treatment in Mainland China and Hong Kong;

(iv) The electric power generation segment operates coal-fired power plants supplying electricity and steam in the Guangdong Province, Mainland China;

(v) The hotel operation and management segment operates the Group's hotels and manages third parties' hotels in Hong Kong and Mainland China;

(vi) The road and bridge segment invests in road and bridge projects; and

(vii) The "others" segment provides treasury services in Hong Kong and Mainland China and engages in the provision of corporate services to other segments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, interest and investment income from available-for-sale financial assets, finance costs, share of profits less losses of associates are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged bank deposits, cash and bank balances, available-for-sale financial assets and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings, tax payable, deferred tax liabilities and other unallocated liabilities as these liabilities are managed on a group basis.

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

Intersegment sales are eliminated in full on consolidation.

4. Operating Segment Information (continued)

(a) Operating segments

	Property investment and development		Department store		Water resources	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**1,130,392**	1,171,425	**717,339**	812,552	**6,505,311**	5,895,616
Intersegment sales	**117,686**	109,947	**–**	–	**–**	–
Other income and gains from external sources	**786**	4,025	**54,084**	64,580	**27,216**	17,793
Other income from intersegment transactions	**1,103**	–	**–**	–	**–**	–
Total	**1,249,967**	1,285,397	**771,423**	877,132	**6,532,527**	5,913,409
Segment results	**1,065,694**	1,038,575	**185,579**	266,360	**3,505,177**	2,936,389
Interest income						
Interest income from available-for-sale financial assets						
Investment income from available-for-sale financial assets						
Finance costs						
Share of profits less losses of:						
associates	**–**	–	**12,059**	10,644	**50,971**	18,945
Profit before tax						
Income tax expense						
Profit for the year						

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Electric power generation		Hotel operation and management		Road and bridge	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**847,293**	470,684	**634,119**	671,660	**629,748**	150,022
Intersegment sales	**91,240**	–	**–**	–	**–**	–
Other income and gains from external sources	**22,172**	10,694	**168**	196	**3,877**	56,806
Other income from intersegment transactions	**–**	–	**–**	–	**–**	–
Total	**960,705**	481,378	**634,287**	671,856	**633,625**	206,828
Segment results	**323,001**	204,225	**79,312**	100,130	**403,454**	144,842
Interest income						
Interest income from available-for-sale financial assets						
Investment income from available-for-sale financial assets						
Finance costs						
Share of profits less losses of:						
associates	**116,029**	295,490	**(54)**	–	**–**	–
Profit before tax						
Income tax expense						
Profit for the year						

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Others		Eliminations		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**–**	–	**–**	–	**10,464,202**	9,171,959
Intersegment sales	**–**	–	**(208,926)**	(109,947)	**–**	–
Other income and gains from external sources	**1,723**	1,548	**–**	–	**110,026**	155,642
Other income from intersegment transactions	**6,895**	11,122	**(7,998)**	(11,122)	**–**	–
Total	**8,618**	12,670	**(216,924)**	(121,069)	**10,574,228**	9,327,601
Segment results	**(301,336)**	(290,248)	**–**	–	**5,260,881**	4,400,273
Interest income					**202,674**	146,705
Interest income from available-for-sale financial assets					**157,041**	345,109
Investment income from available-for-sale financial assets					**82,064**	165,176
Finance costs					**(129,635)**	(136,094)
Share of profits less losses of: associates	**–**	–	**–**	–	**179,005**	325,079
Profit before tax					**5,752,030**	5,246,248
Income tax expense					**(1,099,632)**	(956,949)
Profit for the year					**4,652,398**	4,289,299

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Property investment and development		Department store		Water resources	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**12,971,657**	12,813,420	**165,253**	171,866	**14,860,658**	15,757,067
Investments in associates	**–**	–	**159,032**	161,906	**441,437**	402,406
Unallocated assets						
Total assets						
Segment liabilities	**1,066,167**	1,081,488	**859,401**	973,849	**1,942,085**	2,352,089
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**38,536**	39,020	**20,253**	15,502	**965,541**	915,197
Exchange differences, net	**(118,313)**	(44,999)	**6,749**	3,584	**195,130**	393,961
Impairment losses recognised/ (reversed) for trade receivables in the statement of profit or loss	**(8,934)**	–	**482**	–	**700**	2,322
Impairment losses on an investment in an associate reversed in the statement of profit and loss	**–**	–	**–**	–	**–**	–
Changes in fair value of investment properties	**(112,504)**	(131,801)	**–**	–	**–**	–
Capital expenditure*	**883,577**	794,167	**9,470**	43,531	**209,589**	1,941,226

* *Capital expenditure consists of additions to property, plant and equipment, operating concession rights, prepaid land lease payments and investment properties, including assets from the acquisitions of subsidiaries.*

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Electric power generation 2016 HK$'000	Electric power generation 2015 HK$'000	Hotel operation and management 2016 HK$'000	Hotel operation and management 2015 HK$'000	Road and bridge 2016 HK$'000	Road and bridge 2015 HK$'000
Segment assets	**2,648,973**	2,581,653	**1,907,356**	2,062,388	**2,880,264**	3,205,551
Investments in associates	**1,112,390**	1,328,558	**3,304**	–	**–**	–
Unallocated assets						
Total assets						
Segment liabilities	**657,125**	1,036,493	**146,477**	144,897	**82,046**	82,340
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**81,952**	6,453	**112,768**	125,854	**138,780**	21,597
Exchange differences, net	**(54,027)**	(49,965)	**10,075**	9,853	**(25,728)**	(3,739)
Impairment losses recognised/ (reversed) for trade receivables in the statement of profit or loss	**(1)**	–	**(191)**	–	**–**	–
Impairment losses on an investment in an associate reversed in the statement of profit or loss	**–**	(21,403)	**–**	–	**–**	–
Changes in fair value of investment properties	**–**	–	**–**	–	**–**	–
Capital expenditure*	**239,197**	2,059,632	**29,887**	70,878	**4,573**	3,252,106

* *Capital expenditure consists of additions to property, plant and equipment, operating concession rights, prepaid land lease payments and investment properties, including assets from the acquisitions of subsidiaries.*

4. Operating Segment Information (continued)

(a) Operating segments (continued)

	Others		Eliminations		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**26,962**	7,469	**–**	–	**35,461,123**	36,599,414
Investments in associates	**–**	–	**–**	–	**1,716,163**	1,892,870
Unallocated assets					**14,953,071**	15,617,706
Total assets					**52,130,357**	54,109,990
Segment liabilities	**68,053**	63,577	**–**	–	**4,821,354**	5,734,733
Unallocated liabilities					**9,070,317**	11,107,832
Total liabilities					**13,891,671**	16,842,565
Other segment information:						
Depreciation and amortisation	**480**	768	**–**	–	**1,358,310**	1,124,391
Exchange differences, net	**206,905**	182,754	**–**	–	**220,791**	491,449
Impairment losses recognised/ (reversed) for trade receivables in the statement of profit or loss	**–**	–	**–**	–	**(7,944)**	2,322
Impairment losses on an investment in an associate reversed in the statement of profit or loss	**–**	–	**–**	–	**–**	(21,403)
Changes in fair value of investment properties	**–**	–	**–**	–	**(112,504)**	(131,801)
Capital expenditure*	**1,426**	73	**–**	–	**1,377,719**	8,161,613

* *Capital expenditure consists of additions to property, plant and equipment, operating concession rights, prepaid land lease payments and investment properties, including assets from the acquisitions of subsidiaries.*

(b) Geographical information

The following table presents the Group's geographical information regarding revenue and certain assets for the years ended 31 December 2016 and 2015.

	2016	2015
	HK$'000	HK$'000
Revenue from external customers		
Hong Kong	**244,059**	254,812
Mainland China	**10,220,143**	8,917,147
	10,464,202	9,171,959

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

4. Operating Segment Information (continued)

(b) Geographical information (continued)

	2016 HK$'000	2015 HK$'000
Non-current assets		
Hong Kong	2,225,382	2,192,300
Mainland China	33,931,229	35,379,242
	36,156,611	37,571,542

The non-current asset information above is based on the locations of the assets and excludes available-for-sale financial assets, deferred tax assets and pledged bank deposits.

(c) Information about a major customer

Revenue of approximately HK$4,491,520,000 (2015: HK$4,222,790,000) was derived from sales by the water resources segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

5. Revenue and Other Income and Gains

Revenue represents income from water distribution, sewage treatment and related services; the invoiced value of electricity sold; the invoiced revenue arising from the sale of goods in department stores; commissions from concessionaire sales; revenue from hotel ownership and operation; rental income and toll revenue, net of value-added tax and business tax during the year.

An analysis of revenue, other income and gains is as follows:

	2016 HK$'000	2015 HK$'000
Revenue		
Income from water distribution, sewage treatment and related services*	6,505,311	5,895,616
Sale of electricity	847,293	470,684
Sale of goods	70,896	78,016
Commissions from concessionaire sales	646,443	734,536
Hotel and rental income	1,764,511	1,843,085
Toll revenue	629,748	150,022
	10,464,202	9,171,959
Other income and gains		
Interest income	202,674	146,705
Interest income from available-for-sale financial assets	157,041	345,109
Investment income from available-for-sale financial assets	82,064	165,176
Others	110,026	91,743
	551,805	748,733
Gains on bargain purchase *(note 32)*	–	63,899
	551,805	812,632

* *Including imputed interest income under service concession arrangements of HK$29,531,000 (2015: HK$29,186,000) from the sewage treatment operation*

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold*		**628,958**	337,841
Cost of services rendered*		**2,010,427**	1,849,070
Depreciation	*13*	**403,060**	274,776
Recognition of prepaid land lease payments	*15*	**10,647**	8,546
Amortisation of operating concession rights*	*18(a)*	**944,603**	841,069
Impairment losses recognised/(reversed) for trade receivables, net	*21*	**(7,944)**	2,322
Minimum lease payments under operating leases in respect of land and buildings		**109,406**	101,398
Contingent rents under operating leases		**23,107**	48,418
Auditors' remuneration		**12,138**	11,582
Employee benefit expenses:			
Wages and salaries (excluding directors' fee)		**907,874**	850,147
Equity-settled share option benefits		**3,192**	9,008
Pension scheme contributions		**86,919**	85,269
Less: Forfeited contributions		**(14)**	(23)
Net pension scheme contributions#		**86,905**	85,246
		997,971	944,401
Gross rental income from investment properties		**(1,006,984)**	(1,016,567)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**107,822**	120,164
Net rental income from investment properties		**(899,162)**	(896,403)
Reversal of impairment on an investment in an associate^	*17*	**–**	(21,403)
Loss on disposal of items of property, plant and equipment, net^		**77**	4,616

* *These costs and expenses are included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

\# *As at 31 December 2016 and 2015, the Group had no material forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years.*

^ *Included in "Other operating income, net" on the face of the consolidated statement of profit or loss.*

7. Finance Costs

An analysis of finance costs is as follows:

	2016 HK$'000	2015 HK$'000
Interest on bank and other borrowings	109,588	119,491
Interest on loans from the ultimate holding company *(note 37(a)(v))*	18,522	16,603
Interest expenses charged by a fellow subsidiary *(note 37(a)(vi))*	1,525	–
Finance costs for the year	129,635	136,094

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$'000	2015 HK$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	3,619	3,619
Non-executive directors	–	–
	3,619	3,619
Other emoluments:		
Salaries, allowances and benefits in kind	4,719	2,901
Performance related bonuses	3,504	3,003
Pension scheme contributions	602	502
Less: Forfeited contributions	–	–
Net pension scheme contributions	602	502
Equity-settled share option benefits, net	1,164	3,826
Total directors' remuneration	13,608	13,851

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 HK$'000	2015 HK$'000
CHAN Cho Chak, John	749	749
LI Kwok Po, David	770	770
FUNG Daniel Richard	700	700
CHENG Mo Chi, Moses	700	700
WU Ting Yuk, Anthony	700	700
	3,619	3,619

There were no other emoluments to the independent non-executive directors during the year (2015: Nil).

8. Directors' Remuneration (continued)

(b) Executive directors and other non-executive directors

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Performance related bonuses HK$'000	Net pension scheme contributions HK$'000	Total HK$'000
2016					
Executive directors:					
HUANG Xiaofeng	–	–	–	–	–
WEN Yinheng	–	815	2,160	482	3,457
HO LAM Lai Ping, Theresa	–	2,095	793	60	2,948
TSANG Hon Nam	–	1,809	551	60	2,420
	–	4,719	3,504	602	8,825
Non-executive directors:					
CAI Yong (appointed on 25 August 2016)	–	–	–	–	–
WU Jianguo	–	–	–	–	–
ZHANG Hui	–	–	–	–	–
ZHAO Chunxiao	–	–	–	–	–
LAN Runing	–	–	–	–	–
LI Wai Keung	–	–	–	–	–
HUANG Zhenhai (resigned on 27 January 2016)	–	–	–	–	–
	–	4,719	3,504	602	8,825

In addition to the above, for the year ended 31 December 2016, the amount of equity-settled share option benefits recognised and allocated to directors of the Company were as follows: (1) HK$310,000 to Mr. Huang Xiaofeng; (2) HK$161,000 to Mr. Wen Yinheng; (3) HK$136,000 to Mrs. Ho Lam Lai Ping, Theresa; (4) HK$136,000 to Mr. Tsang Hon Nam; (5) HK$271,000 to Mr. Wu Jianguo; (6) HK$269,000 to Mr. Zhang Hui; (7) HK$271,000 to Ms. Zhao Chunxiao; (8) HK$279,000 to Mr. Li Wai Keung; and (9) a reversal of HK$669,000 from Mr. Huang Zhenhai, with a total amount of HK$1,164,000 being recognised in the statement of profit or loss. The aforementioned "equity-settled share option benefits" represent the aggregate of the amortised fair value of share options granted to directors of the Company over the vesting period that were charged to the statement of profit or loss.

8. Directors' Remuneration (continued)

(b) Executive directors and other non-executive directors (continued)

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Performance related bonuses HK$'000	Net pension scheme contributions HK$'000	Total HK$'000
2015					
Executive directors:					
HUANG Xiaofeng	–	–	–	–	–
WEN Yinheng	–	787	1,744	432	2,963
HO LAM Lai Ping, Theresa# (appointed on 30 October 2015)	–	349	653	10	1,012
TSANG Hon Nam	–	1,765	606	60	2,431
	–	2,901	3,003	502	6,406
Non-executive directors:					
WU Jianguo	–	–	–	–	–
ZHANG Hui	–	–	–	–	–
ZHAO Chunxiao	–	–	–	–	–
LAN Runing (appointed on 12 January 2015)	–	–	–	–	–
LI Wai Keung	–	–	–	–	–
HUANG Zhenhai (resigned on 27 January 2016)	–	–	–	–	–
XU Wenfang (resigned on 31 January 2015)	–	–	–	–	–
	–	2,901	3,003	502	6,406

In addition to the above, for the year ended 31 December 2015, the amount of equity-settled share option benefits recognised and allocated to directors of the Company were as follows: (1) HK$805,000 to Mr. Huang Xiaofeng; (2) HK$417,000 to Mr. Wen Yinheng; (3) HK$60,000 to Mrs. Ho LAM Lai Ping, Theresa (as an executive director since 30 October 2015); (4) HK$375,000 to Mr. Tsang Hon Nam; (5) HK$677,000 to Mr. Wu Jianguo; (6) HK$677,000 to Mr. Zhang Hui; (7) HK$677,000 to Ms. Zhao Chunxiao; (8) HK$670,000 to Mr. Li Wai Keung; (9) HK$692,000 to Mr. Huang Zhenhai; and (10) a reversal of HK$1,224,000 from Ms. Xu Wenfang, with a total amount of HK$3,826,000 being recognised in the statement of profit or loss. The aforementioned "equity-settled share option benefits" represent the aggregate of the amortised fair value of share options granted to directors of the Company over the vesting period that were charged to the statement of profit or loss.

Mrs. HO LAM Lai Ping, Theresa was appointed as an executive director on 30 October 2015. Her remuneration as an employee of the Company before the appointment (i.e. 1 January 2015 to 29 October 2015) was approximately HK$2,260,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2015: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the other two (2015: two) highest paid employees who are not directors of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	2,699	2,654
Performance related bonuses	1,230	2,134
Equity-settled share option benefits	186	448
Pension scheme contributions	297	287
	4,412	5,523

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

	Number of employees 2016	2015
HK$1,500,001 – HK$2,000,000	1	–
HK$2,500,001 – HK$3,000,000	1	2
	2	2

10. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC Corporate Income Tax Law, which became effective from 1 January 2008, enterprises are subject to corporate income tax at a rate of 25%.

	2016 HK$'000	2015 HK$'000
Current – Hong Kong		
Charge for the year	13,848	19,151
Overprovision in prior years	(80)	(60)
Current – Mainland China		
Charge for the year	1,161,704	801,972
Overprovision in prior years	(12,776)	(10,686)
Deferred tax *(note 27)*	(63,064)	146,572
Total tax charge for the year	1,099,632	956,949

10. Income Tax Expense (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2016					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(28,505)		5,780,535		5,752,030	
Tax at the statutory tax rates	(4,703)	16.5	1,445,134	25.0	1,440,431	25.0
Lower tax rates for specific provinces or enacted by local authority	–	–	(51,811)	(0.9)	(51,811)	(0.9)
Adjustments in respect of current tax of previous periods	(80)	0.3	(12,776)	(0.2)	(12,856)	(0.2)
Profits attributable to associates	–	–	(31,721)	(0.5)	(31,721)	(0.6)
Income not subject to tax	(51,161)	179.5	(384,392)	(6.6)	(435,553)	(7.6)
Expenses not deductible for tax	77,454	(271.7)	73,120	1.3	150,574	2.6
Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries	–	–	118,099	2.0	118,099	2.1
Tax losses utilised from previous periods	(9,183)	32.2	(3,100)	(0.1)	(12,283)	(0.2)
Tax losses not recognised	16	(0.1)	29,156	0.5	29,172	0.5
Others	3,587	(12.6)	(98,007)	(1.7)	(94,420)	(1.6)
Tax charge at the Group's effective rates	15,930	(55.9)	1,083,702	18.8	1,099,632	19.1

	2015					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	105,880		5,140,368		5,246,248	
Tax at the statutory tax rates	17,470	16.5	1,285,092	25.0	1,302,562	24.8
Lower tax rates for specific provinces or enacted by local authority	–	–	(16,004)	(0.3)	(16,004)	(0.3)
Adjustments in respect of current tax of previous periods	(60)	–	(10,686)	(0.2)	(10,746)	(0.2)
Profits attributable to associates	–	–	(81,270)	(1.6)	(81,270)	(1.6)
Income not subject to tax	(67,850)	(64.1)	(316,450)	(6.2)	(384,300)	(7.3)
Expenses not deductible for tax	68,544	64.7	55,418	1.1	123,962	2.4
Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries	–	–	119,533	2.3	119,533	2.3
Tax losses utilised from previous periods	–	–	(83)	–	(83)	–
Tax losses not recognised	2,734	2.6	10,630	0.2	13,364	0.2
Others	–	–	(110,069)	(2.1)	(110,069)	(2.1)
Tax charge at the Group's effective rates	20,838	19.7	936,111	18.2	956,949	18.2

11. Dividends

	2016 HK$'000	2015 HK$'000
Interim – HK12.0 cents (2015: HK10.0 cents) per ordinary share	751,792	625,505
Proposed final – HK30.0 cents (2015: HK24.0 cents) per ordinary share	1,879,000	1,503,000
	2,630,792	2,128,505

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The total final dividend payable is based on the total number of shares as at the date of approval of these financial statements by the board of directors which includes the shares issued subsequent to the end of the reporting period.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2016 HK$'000	2015 HK$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	4,212,037	3,905,277

	Number of shares 2016	2015
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	6,263,340,895	6,253,915,335
Effect of dilution – weighted average number of ordinary shares that assumed to have been issued:		
Share options	4,919,313	9,344,796
For the purpose of the diluted earnings per share calculation	6,268,260,208	6,263,260,131

13. Property, Plant and Equipment

	Hotel properties HK$'000	Land and buildings HK$'000	Tunnels, dams, water mains, reservoirs and pipelines HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2016:									
Cost	2,760,412	1,431,237	830,204	1,722,475	573,306	317,717	33,951	2,586,886	10,256,188
Accumulated depreciation and impairment	(965,007)	(515,238)	(25,699)	(1,067,400)	(362,498)	(217,381)	(19,574)	–	(3,172,797)
Net carrying amount	1,795,405	915,999	804,505	655,075	210,808	100,336	14,377	2,586,886	7,083,391
At 1 January 2016, net of accumulated depreciation and impairment	1,795,405	915,999	804,505	655,075	210,808	100,336	14,377	2,586,886	7,083,391
Additions	474	681	751	14,838	24,534	23,361	3,942	330,770	399,351
Acquisitions of subsidiaries *(note 32)*	–	–	–	1,108	528	–	262	–	1,898
Disposals and write-offs	(212)	(681)	–	(227)	(851)	(43)	(161)	–	(2,175)
Depreciation provided during the year *(note 6)*	(74,593)	(57,875)	(21,544)	(175,557)	(43,642)	(26,840)	(3,009)	–	(403,060)
Transfer	14,657	15,528	11,708	2,424,577	41,374	30,874	218	(2,538,936)	–
Transfer from investment properties *(note 14)*	–	10,333	–	–	–	–	–	–	10,333
Exchange realignment	(76,940)	(52,281)	(62,929)	(130,313)	(12,560)	(4,274)	(944)	(57,754)	(397,995)
At 31 December 2016, net of accumulated depreciation and impairment	1,658,791	831,704	732,491	2,789,501	220,191	123,414	14,685	320,966	6,691,743
At 31 December 2016:									
Cost	2,666,690	1,388,925	786,909	3,992,216	597,018	353,732	37,979	320,966	10,144,435
Accumulated depreciation and impairment	(1,007,899)	(557,221)	(54,418)	(1,202,715)	(376,827)	(230,318)	(23,294)	–	(3,452,692)
Net carrying amount	1,658,791	831,704	732,491	2,789,501	220,191	123,414	14,685	320,966	6,691,743

13. Property, Plant and Equipment (continued)

	Hotel properties HK$'000	Land and buildings HK$'000	Tunnels, dams, water mains, reservoirs and pipelines HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2015:									
Cost	2,856,998	1,025,064	197,450	1,300,773	420,229	269,028	27,707	555,242	6,652,491
Accumulated depreciation and impairment	(913,384)	(496,998)	(19,441)	(1,011,421)	(334,702)	(208,395)	(18,600)	–	(3,002,941)
Net carrying amount	1,943,614	528,066	178,009	289,352	85,527	60,633	9,107	555,242	3,649,550
At 1 January 2015, net of accumulated depreciation and impairment	1,943,614	528,066	178,009	289,352	85,527	60,633	9,107	555,242	3,649,550
Additions	572	7,697	7,921	12,180	26,850	38,466	2,984	2,162,628	2,259,298
Acquisitions of subsidiaries *(note 32)*	–	353,368	529,978	383,787	107,084	–	5,739	292,502	1,672,458
Disposals and write-offs	(66)	(44)	–	(2,010)	(3,056)	(816)	(114)	–	(6,106)
Depreciation provided during the year *(note 6)*	(77,704)	(45,358)	(7,444)	(76,963)	(45,208)	(19,270)	(2,829)	–	(274,776)
Transfer	–	69,822	112,183	55,813	47,477	25,043	–	(310,338)	–
Transfer from investment properties *(note 14)*	–	40,384	–	–	–	–	–	–	40,384
Exchange realignment	(71,011)	(37,936)	(16,142)	(7,084)	(7,866)	(3,720)	(510)	(113,148)	(257,417)
At 31 December 2015, net of accumulated depreciation and impairment	1,795,405	915,999	804,505	655,075	210,808	100,336	14,377	2,586,886	7,083,391
At 31 December 2015:									
Cost	2,760,412	1,431,237	830,204	1,722,475	573,306	317,717	33,951	2,586,886	10,256,188
Accumulated depreciation and impairment	(965,007)	(515,238)	(25,699)	(1,067,400)	(362,498)	(217,381)	(19,574)	–	(3,172,797)
Net carrying amount	1,795,405	915,999	804,505	655,075	210,808	100,336	14,377	2,586,886	7,083,391

As at 31 December 2016, property ownership certificates of certain buildings with a net carrying value of HK$192,327,000 (2015: HK$120,676,000) have not been issued. The Group is in the process of obtaining the certificates.

14. Investment Properties

	Completed HK$'000	Under development HK$'000	Total HK$'000
Carrying amount at 1 January 2015	7,857,222	4,256,601	12,113,823
Additions	–	790,996	790,996
Net gains/(losses) from fair value adjustments	136,707	(4,906)	131,801
Transfer to property, plant and equipment, net *(note 13)*	(40,384)	–	(40,384)
Exchange realignment	(389,657)	(279,815)	(669,472)
Carrying amount at 31 December 2015 and 1 January 2016	**7,563,888**	**4,762,876**	**12,326,764**
Additions	**–**	**879,183**	**879,183**
Net gains from fair value adjustments	**101,247**	**11,257**	**112,504**
Transfer to property, plant and equipment, net *(note 13)*	**(10,333)**	**–**	**(10,333)**
Exchange realignment	**(402,516)**	**(344,408)**	**(746,924)**
Carrying amount at 31 December 2016	**7,252,286**	**5,308,908**	**12,561,194**

On an annual basis, the Group engages an external, independent and professionally qualified valuer to determine the fair values of the Group's investment properties. As at 31 December 2016, the fair values have been determined by Vigers Appraisal & Consulting Limited, at an aggregate amount of HK$12,561,194,000 (2015: HK$12,326,764,000) on an open market, existing use basis.

The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed.

Certain investment properties are leased to third parties, Guangdong Holdings, GDH Limited and certain fellow subsidiaries under operating leases, further summary details of which are included in notes 35, 37(a) and 38(b) to the financial statements.

Further particulars of the Group's investment properties are included on page 152.

14. Investment Properties (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**7,252,286**	**7,252,286**
Investment properties under development	**–**	**–**	**5,308,908**	**5,308,908**
	–	**–**	**12,561,194**	**12,561,194**

	Fair value measurement as at 31 December 2015 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	–	–	7,563,888	7,563,888
Investment properties under development	–	–	4,762,876	4,762,876
	–	–	12,326,764	12,326,764

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

Reconciliation of fair value measurement categorised within Level 3 of the fair value hierarchy:

	Commercial properties HK$'000	**Investment properties under development HK$'000**
Carrying amount at 1 January 2015	7,857,222	4,256,601
Additions	–	790,996
Net gains/(losses) from fair value adjustments	136,707	(4,906)
Transfer to property, plant and equipment, net	(40,384)	–
Exchange realignment	(389,657)	(279,815)
Carrying amount at 31 December 2015 and at 1 January 2016	**7,563,888**	**4,762,876**
Additions	**–**	**879,183**
Net gains from fair value adjustments	**101,247**	**11,257**
Transfer to property, plant and equipment, net	**(10,333)**	**–**
Exchange realignment	**(402,516)**	**(344,408)**
Carrying amount at 31 December 2016	**7,252,286**	**5,308,908**

14. Investment Properties (continued)

Fair value hierarchy (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range 2016	2015
Commercial properties located in Hong Kong:				
Office	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.ft. and per month)	**HK$19 to HK$35**	HK$19 to HK$33
		Market rent (per sq.ft. and per month)	**HK$30 to HK$33**	HK$30 to HK$32
		Term yield	**4%**	4%
		Market yield	**4.5%**	4.5%
Retail	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.ft. and per month)	**HK$106**	HK$106
		Market rent (per sq.ft. and per month)	**HK$100**	HK$100
		Term yield	**6%**	6%
		Market yield	**6.75%**	6.75%
Commercial properties located in Mainland China:				
Office	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.m. and per month)	**HK$70 to HK$113**	HK$75 to HK$121
		Market rent (per sq.m. and per month)	**HK$70 to HK$113**	HK$75 to HK$121
		Term yield	**7%**	7%
		Market yield	**8%**	8%
Retail	Income approach, more specifically, a term and reversion approach	Passing rent (per sq.m. and per month)	**HK$71 to HK$466**	HK$71 to HK$466
		Market rent (per sq.m. and per month)	**HK$77 to HK$479**	HK$77 to HK$479
		Term yield	**5.5%**	5.5%
		Market yield	**6%**	6%
Office	Market approach	Market price (per sq.m.)	**HK$26,500 to HK$34,500**	HK$26,300 to HK$33,500
Retail	Market approach	Market price (per sq.m.)	**HK$62,000 to HK$118,500**	HK$60,700 to HK$115,400
Investment properties under development:				
Office	Income approach, more specifically, a residual approach	Gross development value (per sq.m.)	**HK$22,000**	HK$21,000
		Estimated construction cost (per sq.m.)	**HK$6,500**	HK$6,400
		Developer's profit	**23%**	25%

14. Investment Properties (continued)

Fair value hierarchy (continued)

	Valuation techniques	Significant unobservable inputs	Range 2016	2015
Retail	Income approach, more specifically, a residual approach	Gross development value (per sq.m.)	**HK$25,000 to HK$85,000**	HK$23,000 to HK$83,000
		Estimated construction cost (per sq.m.)	**HK$8,500 to HK$11,800**	HK$8,300 to HK$11,300
		Developer's profit	**25%**	25%

The term and reversion approach

Under the term and reversion approach, fair value is estimated on the basis of capitalisation of existing rental income and reversionary market rental income potential.

The market rentals of the investment properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rents are assessed by reference to the rentals achieved in the investment properties as well as other lettings of similar properties in the neighbourhood. The market yield, which is the capitalisation rate adopted, is made by reference to the yields derived from analysing the leasing and sales transactions of similar properties and adjusted to take account of the valuers' knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties.

The key inputs were the market rent and the market yield, which a significant increase/decrease in the market rent in isolation would result in a significant increase/decrease in the fair value of the investment properties and a significant increase/decrease in the market yield in isolation would result in a significant decrease/increase in the fair value of the investment properties.

The market approach

Under the market approach, fair value is estimated by the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristics of the investment properties, which included the location, size, shape, view, floor level, year of completion and others factors collectively, to arrive at the price per square metre.

The key input was the price per square metre, in which a significant increase/decrease in the price would result in a significant increase/decrease in the fair value of the investment properties.

The residual approach

Under the residual approach, fair value is estimated on the basis of the gross development value of the investment properties by reference to their development potential deducting various costs, such as construction cost, contingency cost, finance cost and professional fees that will be expended to complete the development as well as the developer's profit to reflect the risks associated with the development of the investment property and the quality of the completed development.

The gross development value is arrived at by making reference to the sales transactions or asking price evidences of comparable properties as available in the market with adjustments made to account for any differences and where appropriate.

The key inputs were the gross development value, construction cost and developer's profit, which a significant increase/decrease in the development value in isolation would result in a significant increase/decrease in the fair value of the investment properties and a significant increase/decrease in the construction cost and the developer's profit in isolation would result in a significant decrease/increase in the fair value of the investment properties.

15. Prepaid Land Lease Payments

The Group's interests in leasehold land are analysed as follows:

	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January	**295,013**	173,107
Additions	**–**	20,305
Acquisitions of subsidiaries *(note 32)*	**–**	121,903
Amortisation recognised during the year *(note 6)*	**(10,647)**	(8,546)
Exchange realignment	**(19,868)**	(11,756)
Carrying amount at 31 December	**264,498**	295,013

As at 31 December 2016, land use right certificates of certain leasehold land with a carrying value of HK$53,078,000 (2015: HK$65,164,000) have not been issued. The Group is in the process of obtaining the certificates.

16. Goodwill

	2016 HK$'000	2015 HK$'000
Cost and net carrying amount at 1 January	**303,521**	307,533
Acquisitions of subsidiaries *(note 32)*	**–**	1,749
Exchange realignment	**(2,371)**	(5,761)
Cost and net carrying amount at 31 December	**301,150**	303,521

Impairment testing of goodwill

The carrying amounts of goodwill acquired through business combinations have been allocated to the relevant cash-generating units of the corresponding business operations for impairment testing, which are summarised as follows:

	2016 HK$'000	2015 HK$'000
Water distribution operations	**273,596**	274,101
Sewage treatment operations	**27,554**	29,420
	301,150	303,521

Water distribution operations

The recoverable amount of each of the water distribution cash-generating units has been determined based on a value in use calculation using cash flow projections approved by the Company's directors covering the remaining concession periods of 14 to 27 years (2015: 15 to 28 years). The discount rates applied to the cash flow projections range from 7% to 10% (2015: 7% to 10%).

The cash flow projections have been prepared based on the actual results of the respective water distribution cash-generating units for the years ended 31 December 2016 and 2015. Cash flows for each of the water distribution cash-generating units depend principally on the pricing and volume of water distributed. Revenue from the water supply to the HKSAR during the cash flow projection period is based on the latest 2015 Hong Kong Water Supply Agreement where the annual water revenue receivable from the HKSAR for year 2017 is HK$4,778.29 million. No growth in the revenue from the water supply to the HKSAR is extrapolated beyond 2017 (no growth in the revenue was considered solely for the purposes of the impairment test to arrive at a conservative projection of cash flows and does not reflect the forecast long-term industry growth or the Group's expectation of the business performance). Revenue for other projects is projected at growth rates of 4% to 7% per annum (2015: 4% to 7% per annum) over the projection periods. Operating expenses are expected to increase by 1% to 10% per annum (2015: 3% to 10% per annum) during the projection periods.

16. Goodwill (continued)

Sewage treatment operations

The recoverable amount of each of the sewage treatment cash-generating units has been determined based on a value in use calculation using cash flow projections approved by the Company's directors covering the remaining concession periods of 15 to 27 years (2015: 16 to 28 years). The discount rates applied to the cash flow projections is 10% (2015: 10%).

The cash flow projections have been prepared based on the actual historical results of the respective sewage treatment cash-generating units. Cash flows for each of the sewage treatment cash-generating units depend principally on the pricing and volume of the waste water treated. Revenue is projected with growth rates of 2% to 6% per annum (2015: 2% to 6% per annum) over the projection periods. Operating expenses are expected to increase by 3% to 10% per annum (2015: 3% to 10% per annum) during the projection periods.

Based on the results of the impairment test of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2016 (2015: Nil).

17. Investments in Associates

	2016 HK$'000	2015 HK$'000
Share of net assets	**1,787,176**	1,963,883
Goodwill on acquisition	**54,330**	54,330
	1,841,506	2,018,213
Less: Impairment	**(125,343)**	(125,343)
	1,716,163	1,892,870

Movements in the provision for impairment of investments in associates are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**125,343**	146,746
Impairment loss reversed *(note 6)*	**–**	(21,403)
At 31 December	**125,343**	125,343

In prior years, full impairment of HK$146,746,000 was made as the carrying amount of the investment in an associate which was engaged in the power supply operation exceeded its recoverable amount and management considered that the whole amount was not recoverable.

During the year ended 31 December 2015, a reversal of impairment was made upon return of capital from that associate of HK$21,403,000.

Particulars of a material associate are as follows:

Company	Registered and paid-up capital	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Guangdong Yudean Jinghai Power Generation Co., Ltd. ("Yudean Jinghai")	RMB2,919,272,000	Mainland China	25%	Power plant operation

Yudean Jinghai, which is considered as a material associate of the Group, engages in power supply operation and is accounted for using the equity method.

17. Investments in Associates (continued)

The following table illustrates the summarised financial information in respect of Yudean Jinghai, adjusted for any differences in accounting policies and fair value adjustments and reconciled to the carrying amount in the consolidated financial statements:

	2016 HK$'000	2015 HK$'000
Current assets	1,163,581	1,314,673
Non-current assets, excluding goodwill	10,174,926	11,800,955
Goodwill on acquisition of the associate	17,570	17,570
Current liabilities	(2,175,411)	(1,840,539)
Non-current liabilities	(4,783,817)	(6,031,138)
Net assets	4,396,849	5,261,521
Net assets, excluding goodwill	4,379,279	5,243,951
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	25%	25%
Group's share of net assets of the associate, excluding goodwill	1,094,820	1,310,988
Goodwill on acquisition	17,570	17,570
Carrying amount of the investment	1,112,390	1,328,558
Dividend received	255,169	290,066
Revenues	4,702,989	6,213,255
Profit for the year	464,116	1,181,959
Other comprehensive loss for the year	(308,112)	(324,719)
Total comprehensive income for the year	156,004	857,240

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

	2016 HK$'000	2015 HK$'000
Share of the associates' profit for the year	62,976	29,589
Share of the associates' other comprehensive loss	(22,545)	(18,059)
Share of the associates' total comprehensive income	40,431	11,530
Aggregate carrying amount of the Group's investments in the associates	603,773	564,312

18. Service Concession Arrangements

(a) Operating concession rights

	Water distribution operation HK$'000 *(note (i))*	Power supply operation HK$'000	Road and bridge operation HK$'000 *(note (ii))*	Total HK$'000
At 1 January 2016:				
Cost	23,941,156	231,025	3,157,522	27,329,703
Accumulated amortisation and impairment	(11,859,784)	(231,025)	(20,177)	(12,110,986)
Net carrying amount	12,081,372	–	3,137,345	15,218,717
At 1 January 2016, net of accumulated amortisation and impairment	12,081,372	–	3,137,345	15,218,717
Additions	53,045	–	–	53,045
Acquisition of a subsidiary *(note 32)*	44,242	–	–	44,242
Amortisation during the year *(note 6)*	(808,766)	–	(135,837)	(944,603)
Exchange realignment	(37,990)	–	(193,004)	(230,994)
At 31 December 2016, net of accumulated amortisation and impairment	11,331,903	–	2,808,504	14,140,407
At 31 December 2016:				
Cost	23,998,145	–	2,957,267	26,955,412
Accumulated amortisation and impairment	(12,666,242)	–	(148,763)	(12,815,005)
Net carrying amount	11,331,903	–	2,808,504	14,140,407

18. Service Concession Arrangements (continued)

(a) Operating concession rights (continued)

	Water distribution operation HK$'000 *(note (i))*	Power supply operation HK$'000	Road and bridge operation HK$'000 *(note (ii))*	Total HK$'000
At 1 January 2015:				
Cost	23,898,154	245,349	–	24,143,503
Accumulated amortisation and impairment	(11,040,147)	(245,349)	–	(11,285,496)
Net carrying amount	12,858,007	–	–	12,858,007
At 1 January 2015, net of accumulated amortisation and impairment	12,858,007	–	–	12,858,007
Additions	63,070	–	–	63,070
Acquisitions of subsidiaries *(note 32)*	–	–	3,233,583	3,233,583
Amortisation during the year *(note 6)*	(819,962)	–	(21,107)	(841,069)
Exchange realignment	(19,743)	–	(75,131)	(94,874)
At 31 December 2015, net of accumulated amortisation and impairment	12,081,372	–	3,137,345	15,218,717
At 31 December 2015:				
Cost	23,941,156	231,025	3,157,522	27,329,703
Accumulated amortisation and impairment	(11,859,784)	(231,025)	(20,177)	(12,110,986)
Net carrying amount	12,081,372	–	3,137,345	15,218,717

Notes:

(i) The operating concession rights of the Group's water distribution operations mainly arise from the operating concession of WaterCo, a subsidiary of GH Water Holdings, details of which are as follows:

Prior to the acquisition by the Group of an 81% interest in GH Water Holdings in 2000, WaterCo acquired the operating right from Guangdong Holdings to operate the water distribution business, which supplies natural water to the HKSAR, Shenzhen and Dongguan, for a period of 30 years commencing from 18 August 2000. The operating right also grants WaterCo a right and licence to take up to 2.423 billion cubic metres of natural water annually from the Dongjiang River at Qiaotou Township in Dongguan, the exclusive right to supply natural water to the HKSAR and the non-exclusive right to supply natural water to Shenzhen and Dongguan for a period of 30 years commencing from 18 August 2000 or such longer period as extended in accordance with the terms stipulated in a service concession agreement dated 18 August 2000 entered into between the Guangdong Provincial Government (the "GPG") and WaterCo (the "Concession Agreement"). Upon dissolution of WaterCo after the expiration of the operating period, WaterCo is required, at its cost and expense and without compensation, to return all of the assets related to the operating right to the GPG.

At 31 December 2016 and 2015, the Group held certain temporary land use right certificates for the existing water distribution operations issued by the Shenzhen and Dongguan Land Authorities in 2000. The procedures for the conversion from the temporary land use right certificates to the formal land use right certificates were in progress as at 31 December 2016. For the land related to the Phase IV Renovation Project on the water distribution operation facilities, the application for land use right certificates has been submitted and these land use right certificates were not yet issued by the relevant offices of the Land Authorities in the PRC as at 31 December 2016 and 2015. Notwithstanding the above, the directors are of the opinion that the Group has obtained the beneficial titles to these land parcels as at 31 December 2016 and the land use right certificates can be received.

18. Service Concession Arrangements (continued)

(a) Operating concession rights (continued)

Notes: (continued)

(ii) The operating concession rights of the Group's road and bridge operations mainly arise from the operating concession of Xinchangjiang, a subsidiary of Rosy Canton, details of which are as follows:

Prior to the acquisition by the Group of a 100% interest in Rosy Canton in 2015, Xinchangjiang was granted an operating right by 廣西壯族自治區交通廳 to operate a toll road namely, the Xingliu Expressway (興六高速公路) for a period of 30 years from 2003. Xingliu Expressway is located in Guangxi Province and runs from Xingye County, Yulin City to Liujing Town, Hengxian County in Nanning City. At the expiry of the operating right, Xinchangjiang is required, at its cost and expense and without compensation, to return all of the tangible and intangible assets relating to the operating right of the Xingliu Expressway to 廣西壯族自治區交通廳.

(b) Receivables under service concession arrangements

	2016 HK$'000	2015 HK$'000
Receivables under service concession arrangements wholly attributable to sewage treatment operations	**427,536**	447,214
Portion classified as current assets	**(10,247)**	(9,429)
Non-current portion	**417,289**	437,785

Receivables under service concession arrangements were neither past due nor impaired. Such receivables were due mainly from the Grantors in respect of the Group's sewage treatment operations. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in the credit quality and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2016, certain revenue rights of the water distribution operations (2015: certain revenue rights of the water distribution operations and the road and bridge operations) were pledged to secure certain bank and other borrowings. Further details are set out in note 25 to the financial statements.

19. Available-For-Sale Financial Assets

	2016 HK$'000	2015 HK$'000
Non-current:		
Unlisted equity investment, at cost	**5,191**	72,134
Less: Impairment#	**–**	(72,134)
Net carrying value	**5,191**	–
Current:		
Unlisted wealth management products, at fair value^	**7,623,090**	6,228,797
Total available-for-sale financial assets	**7,628,281**	6,228,797

\# *During the year, unlisted equity investment at cost of HK$72,134,000 which was determined to be impaired in prior years was fully written off.*

^ *During the year, gains in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$12,236,000 (2015: HK$20,835,000), which is net of tax of HK$4,079,000 (2015: HK$5,209,000), and gains of HK$19,566,000 (2015: HK$23,766,000), which is net of tax of HK$6,522,000 (2015: HK$5,942,000), were reclassified from other comprehensive income to the statement of profit or loss for the year.*

The above investments were designated as available-for-sale financial assets.

20. Inventories

	2016 HK$'000	2015 HK$'000
Raw materials	**110,626**	112,066
Finished goods	**15,583**	30,990
	126,209	143,056

21. Receivables, Prepayments and Deposits

	Notes	2016 HK$'000	2015 HK$'000
Trade receivables, net of impairment	*(i)*	**450,296**	386,755
Other receivables, prepayments and deposits		**412,833**	359,898
Due from the ultimate holding company	*37(d)*	**83**	245
Due from fellow subsidiaries	*37(d)*	**4,155**	3,238
		867,367	750,136
Less: Portion classified as non-current assets		**(64,167)**	(13,481)
Current portion		**803,200**	736,655

Except for trade receivables as detailed below, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Note (i)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally due within 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to the water distribution, sewage treatment and electricity supply businesses. The Group has a certain concentration of credit risk whereby 20% (2015: 9%) of the total trade receivables was due from one customer. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date, is as follows:

	2016 HK$'000	2015 HK$'000
Within 3 months	**422,881**	329,222
3 months to 6 months	**11,034**	14,032
6 months to 1 year	**761**	1,691
More than 1 year	**20,758**	54,892
	455,434	399,837
Less: Impairment	**(5,138)**	(13,082)
	450,296	386,755

21. Receivables, Prepayments and Deposits (continued)

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

	2016 HK$'000	2015 HK$'000
At 1 January	**13,082**	10,760
Impairment losses recognised/(reversed), net *(note 6)*	**(7,944)**	2,322
At 31 December	**5,138**	13,082

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$5,138,000 (2015: HK$13,082,000) with the same carrying amount before provision as at the end of the reporting period. The individually impaired trade receivables relate to customers that were in default payments and the full amount of the receivables is not expected to be recoverable.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	**297,832**	274,759
Less than 3 months past due	**123,543**	54,224
3 months to 6 months past due	**10,906**	13,897
6 months to 1 year past due	**758**	1,691
More than 1 year past due	**17,257**	42,184
	450,296	386,755

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

22. Cash and Bank Balances and Pledged Bank Deposits

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**3,108,015**	3,976,928
Non-pledged time deposits with:		
Original maturity of more than three months when acquired *(note 33(b))*	**783,410**	1,200,092
Original maturity of less than three months when acquired	**3,303,027**	4,118,164
Cash and bank balances as stated in the consolidated statement of financial position as at 31 December *(note 33(b))*	**7,194,452**	9,295,184
Pledged bank deposits with: *(note)*		
Original maturity of more than 1 year	**22,358**	–
Original maturity of less than 1 year	**27,948**	–
Cash and bank balances and pledged bank deposits	**7,244,758**	9,295,184

Note: Bank deposits of HK$50,306,000 (2015: Nil) were pledged to secure performance obligations of certain service concession agreements.

22. Cash and Bank Balances and Pledged Bank Deposits (continued)

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

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$6,972,037,000 (2015: HK$8,908,649,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Pursuant to an agreement entered into between a subsidiary of the Company and other parties, the subsidiary is required to retain certain cash and bank balances for the payment of interest, repayment of debts and distribution to shareholders of that subsidiary. As at 31 December 2016, cash and bank balances retained for such purposes amounted to HK$2,800,000 (2015: HK$1,408,000).

23. Payables and Accruals

	Notes	**2016 HK$'000**	2015 HK$'000
Trade payables		**578,166**	623,275
Accruals, other payables and other liabilities		**3,688,626**	4,397,613
Deferred income		**213,842**	225,129
Due to the immediate holding company	*37(d)*	**43,262**	48,332
Due to the ultimate holding company	*37(d)*	**3,011**	3,445
Due to fellow subsidiaries	*37(d)*	**104,292**	85,515
Loans from the ultimate holding company	*37(d)*	**–**	313,965
Loans from a fellow subsidiary	*37(d)*	**401,013**	–
		5,032,212	5,697,274
Less: Portion classified as non-current liabilities	*26*	**(1,389,413)**	(1,312,009)
Current portion		**3,642,799**	4,385,265

An aged analysis of the Group's trade payables as at the end of the reporting period, based on the payment due date, is as follows:

	2016 HK$'000	2015 HK$'000
Within 3 months	**577,896**	623,056
3 months to 6 months	**183**	79
6 months to 1 year	**87**	140
	578,166	623,275

The Group's payables and accruals are non-interest-bearing and are normally settled on 60-day terms.

24. Balances with Non-Controlling Shareholders of Subsidiaries

The balances with non-controlling shareholders of subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment or are repayable with one year.

The carrying amounts of the balances with non-controlling shareholders of subsidiaries approximate to their fair values.

25. Bank and Other Borrowings

	2016			2015		
	Effective interest rate	Maturity	HK$'000	Effective interest rate	Maturity	HK$'000
Current						
Bank loans – unsecured	1.15% – 1.70%	2017	768,122	1.09% – 1.14%	2016	299,532
Bank loans – secured	0.99% – 1.19%	2017	160,000	0.99% – 6.46%	2016	166,565
Other loans – unsecured	1.80% – 3.84%	2017	54,230	1.80% – 2.33%	2016	13,780
Other loans – unsecured	–	2017	29,786	–	2016	76,359
			1,012,138			556,236
Non-current						
Bank loans – unsecured	1.10% – 1.70%	2018	4,286,551	1.10% – 6.46%	2017-2022	6,291,057
Bank loans – secured	–	–	–	0.99% – 6.46%	2017-2023	616,552
Other loans – unsecured	1.80% – 6.55%	2018-2024	129,129	1.80% – 6.55%	2017-2021	108,351
			4,415,680			7,015,960
Total bank and other borrowings			5,427,818			7,572,196

	2016 HK$'000	2015 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year/on demand	928,122	466,097
In the second year	4,286,551	1,962,727
In the third to fifth years, inclusive	–	4,924,889
Over five years	–	19,993
	5,214,673	7,373,706
Other loans repayable:		
Within one year/on demand	84,016	90,139
In the second year	6,619	10,218
In the third to fifth years, inclusive	76,206	28,977
Over five years	46,304	69,156
	213,145	198,490
Total bank and other borrowings	5,427,818	7,572,196
Less: Portion classified as current liabilities	(1,012,138)	(556,236)
Non-current portion	4,415,680	7,015,960

Pursuant to a facility agreement entered into by the Group and certain banks in prior years (the "Refinancing Agreement"), the Group obtained a credit facility of HK$2,000 million (the "Refinancing Facility"). The Refinancing Facility was guaranteed by WaterCo on a subordinated basis and was secured by the pledge of the revenue of water distribution of WaterCo. The outstanding balance under the Refinancing Facility at 31 December 2016 was HK$160 million (2015: HK$320 million) which was denominated in HK$ and bore interest at 3-month or 6-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% (2015: 3-month or 6-month HIBOR plus 0.6%) per annum.

25. Bank and Other Borrowings (continued)

As at 31 December 2015, bank loans of HK$370 million and HK$93 million were secured by a pledge over the revenue rights of the road and bridge operations and certain water distribution operations, respectively. The pledges were released during the year ended 31 December 2016 upon repayment of the bank loans.

At 31 December 2016, all bank and other borrowings were denominated in Hong Kong dollars except for bank and other loans of HK$213 million (2015: HK$685 million) which were denominated in RMB.

26. Other Liabilities

	Notes	**2016 HK$'000**	2015 HK$'000
Receipt in advance	*(i)*	**643,541**	709,200
Deferred income		**174,083**	178,632
Deposits		**146,464**	167,505
Other payable		**31,019**	–
Loans from the ultimate holding company		**–**	256,672
Loans from a fellow subsidiary		**394,306**	–
	23	**1,389,413**	1,312,009

Note:

(i) In prior years, the Government of the HKSAR granted a loan facility with a principal amount of HK$2,364 million (the "Loan Facility") to the GPG for the purpose of the Phase IV Renovation Project. Pursuant to the Concession Agreement, the Loan Facility was utilised for the construction of the Phase IV Renovation Project. Upon the completion of the Phase IV Renovation Project during the year ended 31 December 2003, the Group acquired and recorded the assets of the Phase IV Renovation Project and assumed the repayment obligations of the Loan Facility from the GPG as a non-interest-bearing receipt in advance. The outstanding Loan Facility is settled through the deduction of future water revenue to be received by the Group from the Government of the HKSAR, by an annual amount of HK$118,200,000 for 20 years commencing from December 2003.

As at 31 December 2016, a balance for this purpose which was included in the receipt in advance represented a non-interest-bearing receipt in advance of HK$709,200,000 (2015: HK$827,400,000), in which HK$591,000,000 (2015: HK$709,200,000) was grouped in non-current liabilities.

27. Deferred Tax

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

Deferred tax liabilities

	2016							
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Temporary differences related to service concession arrangements HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Revaluation of property, plant and equipment HK$'000	Withholding tax levied on dividend HK$'000	Others HK$'000	Total HK$'000
At 1 January 2016	329,591	87,719	501,285	1,091,436	17,931	693,164	15,091	2,736,217
Deferred tax charged/ (credited) to the consolidated statement of profit or loss during the year *(note 10)*	(15,089)	7,966	7,287	25,546	–	(67,831)	(1,105)	(43,226)
Exchange differences	(20,599)	(4,806)	(31,501)	(70,248)	(1,137)	(48,445)	(2,395)	(179,131)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2016	293,903	90,879	477,071	1,046,734	16,794	576,888	11,591	2,513,860

Deferred tax assets

	2016					
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Depreciation expense in excess of related depreciation allowance HK$'000	Customer loyalty programme HK$'000	Provisions and accruals HK$'000	Others HK$'000	Total HK$'000
At 1 January 2016	(1,546)	(4,777)	(10,006)	(29,500)	(897)	(46,726)
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year *(note 10)*	53	–	3,491	(15,543)	(7,839)	(19,838)
Exchange differences	96	637	481	2,836	1,007	5,057
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2016	(1,397)	(4,140)	(6,034)	(42,207)	(7,729)	(61,507)

27. Deferred Tax (continued)

Deferred tax liabilities

	2015							
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Temporary differences related to service concession arrangements HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Revaluation of property, plant and equipment HK$'000	Withholding tax levied on dividend HK$'000	Others HK$'000	Total HK$'000
At 1 January 2015	72,943	8,981	505,044	1,141,254	19,043	615,923	23,419	2,386,607
Deferred tax charged/ (credited) to the consolidated statement of profit or loss during the year *(note 10)*	(6,512)	118	25,327	17,465	–	119,533	(1,870)	154,061
Acquisitions of subsidiaries *(note 32)*	268,858	79,465	–	–	–	–	(5,278)	343,045
Exchange differences	(5,698)	(845)	(29,086)	(67,283)	(1,112)	(42,292)	(1,180)	(147,496)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2015	329,591	87,719	501,285	1,091,436	17,931	693,164	15,091	2,736,217

Deferred tax assets

	2015						
	Fair value adjustments arising from acquisitions of subsidiaries HK$'000	Depreciation expense in excess of related depreciation allowance HK$'000	Losses available for offsetting against future taxable profits HK$'000	Customer loyalty programme HK$'000	Provisions and accruals HK$'000	Others HK$'000	Total HK$'000
At 1 January 2015	(1,713)	(6,479)	(197)	(6,458)	(26,074)	(183)	(41,104)
Deferred tax charged/ (credited) to the consolidated statement of profit or loss during the year *(note 10)*	70	3,135	197	(4,094)	(5,534)	(1,263)	(7,489)
Acquisitions of subsidiaries *(note 32)*	–	(2,775)	–	–	–	–	(2,775)
Exchange differences	97	1,342	–	546	2,108	549	4,642
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2015	(1,546)	(4,777)	–	(10,006)	(29,500)	(897)	(46,726)

27. Deferred Tax (continued)

The Group has unrecognised tax losses arising in Hong Kong of approximately HK$54,011,000 (2015: HK$84,735,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has unrecognised tax losses arising in Mainland China of HK$694,445,000 (2015: HK$631,545,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the directors considered that it is not probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by the Group.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and associates established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2016, except for withholding tax provided for under deferred tax liabilities, the aggregate amount of temporary differences associated with unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$28,743,000 (2015: HK$111,705,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. Share Capital

Shares

	2016 **HK$'000**	2015 HK$'000
Issued and fully paid: 6,264,931,421 (2015: 6,255,048,341) ordinary shares	**5,789,737**	5,711,660

A summary of movements of the Company's shares capital is as follows:

	Notes	**Number of ordinary shares in issue**	**Share capital HK$'000**
At 1 January 2015		6,240,282,571	5,595,013
Share options exercised	*(i)*	14,765,770	91,548
Release of share option reserve	*(i)*	–	25,099
At 31 December 2015 and 1 January 2016		**6,255,048,341**	**5,711,660**
Share options exercised	*(ii)*	**9,883,080**	**61,275**
Release of share option reserve	*(ii)*	**–**	**16,802**
At 31 December 2016		**6,264,931,421**	**5,789,737**

Notes:

(i) During the year ended 31 December 2015, 14,765,770 share options were exercised at a subscription price of HK$6.20 per ordinary share, resulting in the issue of 14,765,770 ordinary shares. The subscription consideration of HK$91,548,000 was credited to share capital. A release of share option reserve of HK$25,099,000 was credited to share capital.

(ii) During the year ended 31 December 2016, 9,883,080 share options were exercised at a subscription price of HK$6.20 per ordinary share, resulting in the issue of 9,883,080 ordinary shares. The subscription consideration of HK$61,275,000 was credited to share capital. A release of share option reserve of HK$16,802,000 was credited to share capital.

29. Share Option Scheme

On 24 October 2008, the Company adopted a new share option scheme (the "2008 Scheme"). The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors to contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the board of directors of the Company may approve from time to time. Eligible participants of the 2008 Scheme include the employees, officers or directors of a member of the Group ("Eligible Person"). The 2008 Scheme unless otherwise terminated or amended, will remain in force for 10 years from 24 October 2008.

The total number of ordinary shares which may be issued upon exercise of all share options to be granted under the 2008 Scheme (excluding any which have lapsed) and any other schemes of the Company must not, in aggregate, exceed 10% of the ordinary shares of the Company in issue as at the date of the adoption of the 2008 Scheme.

The total number of ordinary shares issued and to be issued upon exercise of the share options granted and to be granted under the 2008 Scheme to each eligible participant (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant of share options must not exceed 1% of the ordinary shares in issue at such date. Any further grant of share options under the 2008 Scheme in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director or chief executive of the Company, or any of their respective associates, under the 2008 Scheme must be approved by the independent non-executive directors of the Company. In addition, for any share options granted to an independent non-executive director of the Company, or any of their respective associates, which would result in the ordinary shares issued and to be issued upon exercise of all share options already granted or to be granted under the 2008 Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the ordinary shares in issue; and (ii) having an aggregate value (based on the closing price of the ordinary shares at the date of grant) in excess of HK$5,000,000, such grant of options by the board of directors must be approved by shareholders in a general meeting.

An offer of grant of a share option under the 2008 Scheme may be accepted by the grantee within the period of the time stipulated by the board of directors of the Company, but not exceeding 14 days inclusive of, and from the date of such offer. All share options under the 2008 Scheme will be unvested share options upon grant which will, subject to a grantee continuing to be an Eligible Person, vest with the grantee in accordance with the vesting schedules specified in their respective offer of grant. Subject to the rules of the 2008 Scheme and the relevant offer of the grant of a share option, a vested share option may be exercised in accordance with the terms of the rules of the 2008 Scheme at any time during the period to be determined and notified by the directors of the Company to each grantee, which period may commence on the date which is 2 years from the date of grant of the share option but shall end in any event not later than 10 years from the aforesaid date of grant. The exercise of any share option under the 2008 Scheme may be subject to the achievement of performance targets which may be determined by the board of directors of the Company at its absolute discretion on a case by case basis upon the grant of the relevant share option and stated in the offer of grant of such share option.

The exercise price of the share options under the 2008 Scheme is determinable by the board of directors of the Company and shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the Company's ordinary shares based on the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the ordinary shares.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any share option that has not been exercised.

9,883,080 share options granted under the 2008 Scheme were exercised during the year (2015: 14,765,770) which resulted in the issue of 9,883,080 (2015: 14,765,770) ordinary shares, issued capital of approximately HK$78,077,000 (2015: HK$116,647,000) after the release of share option reserve net of issue expenses, as detailed in note 28 to the financial statements.

29. Share Option Scheme (continued)

At 31 December 2016, the Company had 10,432,560 (2015: 21,069,600) share options outstanding under the 2008 Scheme, which represented approximately 0.17% (2015: 0.34%) of the ordinary shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,432,560 (2015: 21,069,600) additional ordinary shares and the increase in share capital of approximately HK$64,682,000 (2015: increase in share capital of approximately HK$130,632,000) (before issue expenses).

The total number of ordinary shares which may be issued upon exercise of share options yet to be granted under the 2008 Scheme (and thus not including those ordinary shares for share options already granted but yet to be exercised under the 2008 Scheme) was 462,356,807, which represented approximately 7.38% of the issued share capital of the Company as at the date of approval of these financial statements.

At the date of approval of these financial statements, the Company had 10,317,360 share options outstanding under the 2008 Scheme, which represented approximately 0.16% of the Company's shares in issue as at that date.

Movements in share options under the Company's 2008 Scheme during the year are as follows:

	2016		2015	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**6.20**	**21,069,600**	6.20	37,447,000
Exercised during the year	**6.20**	**(9,883,080)**	6.20	(14,765,770)
Forfeited/lapsed during the year#	**6.20**	**(753,960)**	6.20	(1,611,630)
At 31 December	**6.20**	**10,432,560**	6.20	21,069,600

During the year ended 31 December 2016, share options held by Mr. Huang Zhenhai, a non-executive director of the Company who resigned on 27 January 2016 (2015: share options held by Ms. Xu Wenfang, a non-executive director of the Company and certain employees) lapsed or were forfeited in accordance with the rules of the 2008 Scheme.

Out of 753,960 (2015: 1,611,630) share options, 59,460 (2015: none) were vested and lapsed and accordingly, HK$101,000 (2015: Nil) was transferred from the share option reserve to retained profits and 694,500 (2015: 1,611,630) share options were forfeited.

The weighted average share price at the date of exercise of the share options exercised during the year was HK$9.88 per share (2015: HK$10.45 per share).

29. Share Option Scheme (continued)

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2016

Number of options	Exercise price* HK$ per share	Exercise period (dd.mm.yyyy)
669,060	**6.20**	**22-01-2016 to 21-07-2018**
3,254,500	**6.20**	**22-01-2017 to 21-07-2018**
6,509,000	**6.20**	**22-01-2018 to 21-07-2018**
10,432,560		

2015

Number of options	Exercise price* HK$ per share	Exercise period (dd.mm.yyyy)
153,600	6.20	22-01-2015 to 21-07-2018
10,458,000	6.20	22-01-2016 to 21-07-2018
3,486,000	6.20	22-01-2017 to 21-07-2018
6,972,000	6.20	22-01-2018 to 21-07-2018
21,069,600		

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair value of the share options granted during the year ended 31 December 2013 was HK$67,034,400. The Group recognised a share option benefit of HK$3,192,000 during the year ended 31 December 2016 (2015: HK$9,008,000).

The fair value of equity-settled share options granted during the year ended 31 December 2013 was estimated at the date of grant, using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	2013
Exercise price (HK$)	6.20
Dividend yield (%)	2.9
Expected volatility (%)	40
Historical volatility (%)	40
Risk-free interest rate (%)	0.494
Expected life of share options (years)	5.5

30. Reserves

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

(i) The special reserve (the "Special Reserve") was set up as one of the undertakings (the "Undertaking") given to the High Court of the HKSAR by the Company in its capital reduction application in 2003, on terms that for so long as there shall remain outstanding any debt of, or claim against the Company, which would be admissible to proof in a notional winding-up of the Company when the Undertaking became effective on 24 December 2003 (the "Effective Date") and the person entitled to the benefit thereof shall not have consented to the said reduction of capital or agreed otherwise, the Company shall credit to the Special Reserve: (a) any amount arising by reason of a release of any provision taken into account in establishing the accumulated losses of the Company as at 30 June 2003; or (b) any amount received by the Company as profit by way of distribution from a corporation which was a subsidiary of the Company at the Effective Date which is made by such subsidiary out of the profit available for distribution prior to the Effective Date or any dividend paid to the Company in respect of any liquidation of a subsidiary commencing prior to that date.

During the year ended 31 December 2016, the release of provision as determined above amounted to HK$13,920,000 (2015: HK$87,551,000); and no profit (2015: Nil) was distributed from the Company's subsidiary as determined above. As a result, a transfer from retained profits to the Special Reserve of the Group of HK$13,920,000 (2015: HK$87,551,000) was recorded.

The Special Reserve shall not be treated as realised profits of the Company and shall, for so long as the Company shall remain a limited company, be treated as an undistributable reserve of the Company for the purpose of the Hong Kong Companies Ordinance. Further, the amount standing to the credit of the Special Reserve may be reduced by an amount equal to any increase, after the Effective Date, in the paid-up share capital account of the Company which results from an issue of shares (other than for the purposes of any redemption or purchase by the Company of its own shares) for cash or other consideration or by way of the capitalisation of distributable profits or reserves. The Company shall be at liberty to transfer the amount so reduced to the general reserves of the Company and the same shall become available for distribution.

During the year, the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, resulting from the aggregate increase in paid-up share capital due to the issue of the Company's ordinary shares (before any share issue expenses), amounted to HK$61,275,000 (2015: HK$91,548,000). In effecting the reduction and capitalisation as aforesaid, the amount transferred from the Special Reserve is kept to be an amount not exceeding the balance of the Special Reserve before such transfer.

The amount credited to the Special Reserve shall not at any time exceed HK$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital of the Company which results from an issue of shares as referred to above. The Limit may also be reduced by the amount of any non-permanent loss of the Company as at 30 June 2003 which subsequently turns into a permanent loss. During the year, no non-permanent loss was turned into a permanent loss of the Group (2015: Nil).

In the event that the amount standing to the credit of the Special Reserve at any time exceeds the Limit, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution. All profits and write-backs of provisions made by the Company between 1 July 2003 and the Effective Date are subject to an undertaking in similar terms.

As at 31 December 2016, the Limit of the Group's Special Reserve was reduced by (i) an increase in paid-up share capital due to the issue of the Company's ordinary shares of HK$61,275,000 (2015: HK$91,548,000); and (ii) the amount of non-permanent loss of nil (2015: nil) which has turned into a permanent loss for the year ended 31 December 2016.

The Limit, as adjusted, was HK$450,523,436 (2015: HK$511,798,532) and the amount standing to the credit of the Group's Special Reserve was HK$80,852,661 (2015: HK$128,207,802) as at 31 December 2016.

30. Reserves (continued)

(ii) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based arrangements in note 2.4 to the financial statements. The amount will either be transferred to the issued share capital account when the related options are exercised, or be transferred to retained profits should the related options expire or lapse.

(iii) Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established/registered in Mainland China has been transferred to the expansion fund reserve which is restricted as to use.

(iv) The capital reserve mainly represent the capital reserve arising from group reorganisations in prior years.

31. Partly-Owned Subsidiaries with Material Non-Controlling Interests

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

	2016	2015
Percentage of equity interest held by GD Teem's non-controlling interests	**23.87%**	23.87%

	2016 HK$'000	2015 HK$'000
Profit for the year allocated to GD Teem's non-controlling interests	**205,654**	210,575
Accumulated balances of GD Teem's non-controlling interests at the reporting date	**4,448,296**	4,210,997

The following tables illustrate the summarised financial information of GD Teem. The amounts disclosed are before any inter-company eliminations:

	2016 HK$'000	2015 HK$'000
Revenue	**2,020,711**	2,154,737
Changes in fair value of investment properties	**109,840**	75,767
Total expenses	**(1,138,598)**	(1,210,601)
Profit for the year	**991,953**	1,019,903
Total comprehensive income for the year	**240,206**	176,635
Current assets	**7,983,187**	7,737,076
Non-current assets	**9,697,414**	9,869,156
Current liabilities	**(1,579,694)**	(1,782,785)
Non-current liabilities	**(1,961,850)**	(1,924,479)
Net cash flows from operating activities	**312,890**	993,137
Net cash flows used in investing activities	**(426,602)**	(1,142,700)
Net cash flows from/(used in) financing activities	**268,772**	(22,928)
Effect of foreign exchange rate changes, net	**(28,710)**	(41,914)
Net increase/(decrease) in cash and cash equivalents	**126,350**	(214,405)

32. Business Combinations

(A) Year ended 31 December 2016

On 20 September 2016, Guangdong Water Group (H.K.) Limited, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with an independent third party (hereinafter referred to as the "Non-controlling Shareholder of Suixi Water Co") to set up a company, Suixi Water Co, in which the Group has a 70% equity interest. On the same date, an asset agreement was entered by Suixi Water Co to acquire assets and liabilities of a water distribution operation in the PRC (the "Suixi Water Operation") from the Non-controlling Shareholder of Suixi Water Co. As a result of the above arrangements, the assemble workforce, existing contracts, service concession right, and assets and liabilities of the Suixi Water Operation in the PRC were acquired by Suixi Water Co.

The directors of the Company are of opinion that the establishment of Suixi Water Co and acquisition of assets and liabilities of the Suixi Water Operation by Suixi Water Co (collectively, the "Suixi Acquisition") constituted a business combination as defined in HKFRS 3 (Revised). The Suixi Acquisition was completed on 19 December 2016. The Suixi Acquisition was made as part of the Group's strategy to expand its market share in water distribution operations in the PRC.

The Group has elected to measure the non-controlling interest in Suixi Water Co at the fair values.

The fair values of the identifiable assets and liabilities acquired as at the date of acquisition are set out as follows:

	Notes	**HK$'000**
Property, plant and equipment	*13*	**1,898**
Operating concession rights	*18*	**44,242**
Receivables, prepayments and deposits		**104**
Inventories		**674**
Cash and bank balances		**421**
Payables and accruals		**(2,124)**
Total identifiable net assets at fair value		**45,215**
Non-controlling interest		**(20,272)**
		24,943
Satisfied by:		
Cash		**24,943**

As at the date of acquisition, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible.

The Group incurred transaction costs of HK$618,000 in connection with the acquisition. The transaction costs have been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of the Suixi Acquisition is as follows:

	HK$'000
Cash considerations	**(24,943)**
Cash and bank balances acquired	**421**
Acquisition consideration payable	**12,416**
Net outflow of cash and cash equivalents included in cash flows used in investing activities	**(12,106)**
Transaction costs for the acquisitions included in cash flows from operating activities	**(618)**
	(12,724)

Since the date of acquisition, the Suixi Acquisition contributed HK$516,000 to the Group's revenue and HK$44,000 to the Group's profit for the year ended 31 December 2016.

32. Business Combinations (continued)

(A) Year ended 31 December 2016 (continued)

It was impractical to provide the information as if the above combination had taken place at the beginning of the year, since the Group was unable to obtain relevant financial information to quantify the operation results of the particular assets and liabilities acquired before the acquisition.

(B) Year ended 31 December 2015

(a) On 9 October 2015, the Group acquired a 100% equity interest in China City Water Supply from GDH Limited at RMB310,000,000 (approximately equivalent to HK$377,079,000), together with the shareholder's loans of HK$18,869,000 and RMB303,825,000 (approximately equivalent to HK$369,568,000) from GDH Limited at a cash consideration of RMB613,825,000 (approximately equivalent to HK$765,516,000). Further details of the transaction are set out in note 37(b)(ii) to the financial statements. China City Water Supply holds a number of subsidiaries and an associate (collectively, the "China City Water Supply Group") which engage in the operation of water distribution, sewage treatment and waterworks construction in the PRC. Pursuant to the sale and purchase agreement, the Group also procured the repayment of certain payables due from the China City Water Supply Group to GDH Limited and its fellow subsidiaries, with an aggregate carrying amount of HK$428,583,000 as at 9 October 2015.

Total amount for the acquisition to be paid by the Group amounted to approximately HK$1,194,099,000.

The acquisition was made as part of the Group's strategy to expand its market share in the water distribution and sewage treatment operation in the PRC.

The Group has elected to measure the non-controlling interests in the China City Water Supply Group at the non-controlling interests' proportionate share of these entities' identifiable net assets.

The fair values of the identifiable assets and liabilities of the China City Water Supply Group as at the date of acquisition are set out as follows:

	Notes	HK$'000
Property, plant and equipment	*13*	1,049,203
Prepaid land lease payments	*15*	80,785
Investment in an associate		105,427
Receivables, prepayment and deposits		47,792
Deferred tax assets	*27*	2,775
Inventories		32,800
Trade receivables		106,513
Cash and bank balances		703,449
Trade payables		(169,956)
Other payables and accruals		(208,124)
Tax payables		(12,717)
Due to GDH Limited and its fellow subsidiaries		(428,583)
Bank and other borrowings		(170,417)
Shareholder's loans		(388,437)
Other liabilities		(17,317)
Deferred tax liabilities	*27*	(13,155)
Total identifiable net assets at fair value		720,038
Non-controlling interests		(335,866)
		384,172
Settlement of shareholder's loans		388,437
Settlement of amounts due to the GDH Limited and its fellow subsidiaries		428,583
Gain on bargain purchase recognised in other income and gains in the consolidated statement of profit or loss	*5*	(7,093)
		1,194,099
Satisfied by:		
Cash		1,194,099

32. Business Combinations (continued)

(B) Year ended 31 December 2015 (continued)

(a) (continued)

As at the date of acquisition, the fair values of the receivables were their gross contractual amounts, except for trade receivables with contractual amounts of HK$109,022,000, out of which HK$2,509,000 are expected to be uncollectible. The gain on bargain purchase is attributable to the Group's bargaining power and ability in negotiating the agreed terms of the transaction with the vendor. The Group incurred transaction costs of HK$13,922,000 in connection with the acquisition. The transaction costs have been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of the China City Water Supply Group is as follows:

	HK$'000
Cash paid	(1,194,099)
Cash and bank balances acquired	703,449
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(490,650)
Transaction costs for the acquisition included in cash flows from operating activities	(13,922)
	(504,572)

Had the above business combination taken place at the beginning of the prior year, the Group's revenue and profit for the year ended 31 December 2015 would have been HK$9,425,345,000 and HK$4,376,906,000, respectively.

(b) On 9 October 2015, the Group acquired a 100% equity interest in Rosy Canton from GDH Limited at RMB35,000,000 (approximately equivalent to HK$42,573,000), together with the shareholder's loan of RMB151,400,000 (approximately equivalent to HK$184,161,000) from GDH Limited at a cash consideration of RMB186,400,000 (approximately equivalent to HK$226,734,000). Further details of transaction are included in note 37(b)(iii) to the financial statements. Rosy Canton has an indirect interest in a subsidiary which principally engages in the road and bridge operations in the PRC (collectively, the ''Rosy Canton Group''). The acquisition was made to enhance the Group's investment portfolios in stable income projects. Pursuant to the sale and purchase agreement, the Group also procured to repay certain payables due from the Rosy Canton Group to the holding company and fellow subsidiaries of GDH Limited with an aggregate carrying amount of RMB1,937,984,000 (equivalent to HK$2,361,046,000) as at 9 October 2015.

Total amount for the acquisition to be paid by the Group amounted to HK$2,587,780,000.

32. Business Combinations (continued)

(B) Year ended 31 December 2015 (continued)

(b) (continued)

The fair values of the identifiable assets and liabilities of the Rosy Canton Group as at the date of acquisition are set out as follows:

	Notes	HK$'000
Property, plant and equipment	*13*	11,432
Operating concession rights	*18(a)*	3,233,583
Receivables, prepayments and deposits		312,618
Trade receivables		22,490
Cash and bank balances		245,492
Trade payables		(39,802)
Other payables and accruals		(51,621)
Tax payables		(16,553)
Shareholder's loan		(184,161)
Bank and other borrowings		(743,163)
Due to the holding company and fellow subsidiaries of GDH Limited		(701,721)
Loan from the ultimate holding company		(1,659,325)
Deferred tax liabilities	*27*	(329,890)
Total identifiable net assets at fair value		99,379
Settlement of shareholder's loan		184,161
Settlement of amounts due to the holding company and fellow subsidiaries of GDH Limited		2,361,046
Gain on bargain purchase recognised in other income and gains in the consolidated statement of profit or loss	*5*	(56,806)
		2,587,780
Satisfied by:		
Cash		2,587,780

At the date of acquisition, the fair values of receivables were their gross contractual amounts. None of them was expected to be uncollectable. The gain on bargain purchase is attributable to the Group's bargaining power and ability in negotiating the agreed terms of the transaction with the vendor. The Group incurred transaction costs of HK$12,014,000 in connection with the acquisition. The transaction costs have been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of the Rosy Canton Group is as follows:

	HK$'000
Cash paid	(2,587,780)
Cash and bank balances acquired	245,492
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(2,342,288)
Transaction costs for the acquisition included in cash flows from operating activities	(12,014)
	(2,354,302)

Had the above business combination taken place at the beginning of the prior year, the Group's revenue and profit for the year ended 31 December 2015 would have been HK$9,445,807,000 and HK$4,391,323,000, respectively.

(c) On 15 December 2015, Qingxi Water Co, a subsidiary of the Group, which was established in 2015, acquired assets and liabilities of a water distribution operation in the PRC from an independent third party at a cash consideration of RMB544,610,000 (equivalent to HK$650,046,000) (the "Qingxi Acquisition").

The acquisition was made as part of the Group's strategy to expand its market share in water distribution operation in the PRC.

32. Business Combinations (continued)

(B) Year ended 31 December 2015 (continued)

(c) (continued)

The directors of the Company are of opinion that the Qingxi Acquisition constituted a business combination as defined in HKFRS 3.

At the date of acquisition, the fair values of the assets and liabilities acquired and goodwill were determined on a provisional basis subject to the completion of valuation and identification of the assets and liabilities. The provisional values were determined based on best estimate of the directors of the Company.

During the year ended 31 December 2016, the identification and the valuation of the fair values of the identifiable assets and liabilities have been completed. No adjustments have been made to retrospectively adjust the provisional amounts recognised at the acquisition date.

The fair values of the identifiable assets and liabilities acquired and the goodwill as at the date of acquisition are set out as follows:

	Notes	HK$'000
Property, plant and equipment	*13*	611,823
Prepaid land lease payments	*15*	41,118
Inventories		2,475
Cash and bank balances		20,058
Other payables and accruals		(27,177)
Total identifiable net assets at fair value		648,297
Goodwill on acquisition	*16*	1,749
		650,046
Satisfied by:		
Cash consideration		650,046

As at the date of acquisition, the fair values of the receivables were their gross contractual amounts. None of them was expected to be uncollectible.

The Group incurred transaction costs of HK$820,000 in connection with the acquisition. The transaction costs have been included in administrative expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the Qingxi Acquisition is as follows:

	HK$'000
Cash considerations	(650,046)
Cash and bank balances acquired	20,058
Acquisition consideration payable	385,705
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(244,283)
Transaction costs for the acquisitions included in cash flows from operating activities	(820)
	(245,103)

It was impractical to provide the information as if the above combination had taken place at the beginning of the prior year, since the Group was unable to obtain relevant financial information to quantify the operation results of the particular assets and liabilities acquired before the acquisition.

Since the date of acquisitions, the business combinations mentioned in (a), (b) and (c) above contributed HK$221,365,000 to the Group's revenue and HK$77,095,000 to the Group's profit for the year ended 31 December 2015.

33. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

(i) During the year, the Group settled an amount of HK$118,200,000 (2015: HK$118,200,000) in relation to the Loan Facility by deducting it against the water revenue receivable from Government of the HKSAR. Details of the Loan Facility are set out in note 26 to the financial statements.

(ii) As at 31 December 2016, the Group had payables for property, plant and equipment of HK$575,853,000 (2015: HK$724,990,000) and for investment properties of HK$379,003,000 (2015: HK$295,070,000) which were included in payables and accruals.

(iii) As at 31 December 2016, the Group had utilised prepayments and deposits for property, plant and equipment of nil (2015: HK$337,915,000). This had no impact on the cash flows of the Group during the year ended 31 December 2016 and 2015.

(iv) As at 31 December 2016, the Group had dividend payables to non-controlling shareholders of the Group of HK$145,970,000 (2015: HK$135,633,000), of which HK$85,724,000 (2015: HK$97,750,000) was included in payables and accruals and HK$60,246,000 (2015: HK$37,883,000) was included in amounts due to non-controlling shareholders of subsidiaries.

(b) Cash and cash equivalents

	2016 HK$'000	2015 HK$'000
Cash and bank balances as stated in the consolidated statement of financial position as at 31 December *(note 22)*	**7,194,452**	9,295,184
Non-pledged time deposits with original maturity of more than three months when acquired *(note 22)*	**(783,410)**	(1,200,092)
Cash and cash equivalents as stated in the consolidated statement of cash flows as at 31 December	**6,411,042**	8,095,092

34. Contingent Liabilities

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

	2016 HK$'000	2015 HK$'000
The Group's proportional share of guarantees given to banks in connection with facilities utilised by an associate	**93,121**	288,923

As at 31 December 2016, the banking facilities granted to the associate subject to guarantees given to a bank by the Group and the other shareholders of the associate were in accordance with the shareholding ratio of each party. The facilities granted to the associate by bank was utilised to the extent of approximately HK$190,043,000 (2015: HK$589,638,000).

35. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to nineteen years (2015: one to nineteen years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**853,561**	770,775
In the second to fifth years, inclusive	**1,403,625**	978,603
After five years	**317,994**	262,280
	2,575,180	2,011,658

(b) As lessee

The Group leases certain leasehold properties under operating lease arrangements. Leases for properties are negotiated for terms of one to twenty years (2015: one to twenty years).

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**76,355**	89,510
In the second to fifth years, inclusive	**70,858**	90,291
After five years	**8,161**	15,821
	155,374	195,622

In addition to the operating lease arrangements disclosed above, the Group leases certain leasehold properties for the department store operation. The rental charge of HK$110,010,000 (2015: HK$127,837,000) was calculated with reference to the revenue generated by the Group.

36. Commitments

(a) In addition to the operating lease commitments detailed in note 35(b) above and elsewhere in these financial statements, the Group had the following capital commitments at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Capital commitments in respect of property, plant and equipment, investment properties and intangible assets: Contracted for	**1,248,697**	1,392,982

36. Commitments (continued)

(b) On 8 June 2016, the Company entered into a cooperation agreement with 東莞市謝崗鎮人民政府 in respect of a public-private-partnership project (the "Yinping PPP Project") for the development of certain public roads which are not toll roads (the "Project Roads") in 銀瓶創新區 (Yinping Innovation Zone) in Dongguan, Guangdong, the PRC.

The Group shall be responsible for, inter alia, the provision of funding for the development of the Project Roads with the development costs not exceeding RMB4.754 billion (equivalent to approximately HK$5.314 billion), and project management and maintenance of the Project Roads. At the end of the reporting period, no funding was provided in relation to the Yinping PPP Project.

Further details of the Yinping PPP Project are set out in the Company's announcement dated 8 June 2016.

37. Related Party Transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

(a) Transactions with related parties

	Notes	**2016 HK$'000**	2015 HK$'000
Hotel management fees received from fellow subsidiaries*	*(i)*	**(5,362)**	(6,248)
Rental income received from Guangdong Holdings, GDH Limited and certain subsidiaries of GDH Limited*	*(ii)*	**(29,111)**	(27,095)
Water distribution income received from a fellow subsidiary*	*(iii)*	**(29,014)**	(30,970)
Dividends paid and payable to GDH Limited and certain subsidiaries of GDH Limited by GH Water Holdings	*(iv)*	**111,780**	80,944
Dividends paid to GDH Limited and certain of its subsidiaries by the Company	*(iv)*	**1,231,403**	1,022,317
Dividends paid to Guangdong Holdings by WaterCo	*(iv)*	**37,543**	100,455
Interest expense charged by Guangdong Holdings	*(v)*	**18,522**	16,603
Interest expense charged by a fellow subsidiary	*(vi)*	**1,525**	–
Sale of electricity to a fellow subsidiary*	*(vii)*	**(12,961)**	–

Notes:

(i) The hotel management fees were charged in accordance with the terms of agreements entered into between the Group and the respective fellow subsidiaries.

(ii) The Group received rental income and reimbursement of other expenses of HK$31,629,000 (2015: HK$30,294,000) in accordance with the terms of respective tenancy agreements with these related parties in which rental income was HK$29,111,000 (2015: HK$27,095,000) for year ended 31 December 2016.

(iii) Income on the supply of untreated water was charged in accordance with the terms of an agreement entered into between the Group and a fellow subsidiary.

(iv) The dividends paid and payable were made pursuant to the dividend rates proposed and declared at the respective boards of directors and shareholders' meetings.

(v) The interest expense was charged at 81.3% of the RMB benchmark 3-year lending rate per annum announced by the People's Bank of China.

(vi) The interest expense was charged on a loan balance at an interest rate of 95% of the RMB benchmark 3-year lending rate per annum announced by the People's Bank of China and on another loan balance at an interest rate of 94% of the RMB benchmark 5-year lending rate per annum announced by the People's Bank of China.

(vii) Income received from the sale of electricity in accordance with the terms of the agreement of HK$15,165,000 (2015: nil) in which a tax amount was HK$2,204,000 (2015: nil).

* *These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

37. Related Party Transactions (continued)

(b) Other transactions with related parties

(i) At 31 December 2016, a Group's fellow subsidiary, which is also a shareholder of a non-wholly owned subsidiary of the Group, has provided a guarantee for the obligation of the Group's non-wholly owned subsidiary in proportion to its interest in that subsidiary on a several basis up to RMB71,680,000 (2015: RMB358,400,000).

(ii) On 9 October 2015, the Group acquired a 100% equity interest in China City Water Supply from GDH Limited at RMB310,000,000 (approximately equivalent to HK$377,079,000), together with the shareholder's loans of HK$18,869,000 and RMB303,825,000 (approximately equivalent to HK$369,568,000) from GDH Limited for a cash consideration of RMB613,825,000 (approximately equivalent to HK$765,516,000). The consideration was determined with reference to a valuation performed by independent professional valuers. The transaction also constituted a discloseable and connected transaction as defined in Chapter 14A of the Listing Rules. Further details are set out in the circular of the Company dated 7 September 2015 and note 32 to the financial statements.

(iii) On 9 October 2015, the Group acquired a 100% equity interest in Rosy Canton from GDH Limited at RMB35,000,000 (approximately equivalent to HK$42,573,000), together with the shareholders' loan of RMB151,400,000 (approximately equivalent to HK$184,161,000) from GDH Limited for a cash consideration of RMB186,400,000 (approximately equivalent to HK$226,734,000). The consideration was determined with reference to a valuation performed by independent professional valuers. The transaction also constituted a discloseable and connected transaction as defined in Chapter 14A of the Listing Rules. Further details are set out in the circular of the Company dated 7 September 2015 and note 32 to the financial statements.

(c) Commitments with related parties

The Group entered into several tenancy agreements, as lessor, with Guangdong Holdings, GDH Limited and certain fellow subsidiaries of the Company (collectively, the "GDH Group") for leasing out several units in Hong Kong and Mainland China as office premises. The total amounts received from the GDH Group for the year were included in note 37(a) to the financial statements. Details of the Group's commitments with related parties are as follows:

(i) On 29 November 2013, GPIL, a non-wholly-owned subsidiary of the Company, and Guangdong Land Holdings Limited ("GD Land"), a 73.82% owned subsidiary of GDH Limited and a fellow subsidiary of the Company, entered into a tenancy agreement in relation to the leasing out of 18th Floor of Guangdong Investment Tower (the "GDI Tower") as office premises for a term of three years commencing on 1 December 2013 at a monthly rent of HK$247,456. On 28 November 2016, GPIL and GD Land renewed the tenancy agreement for a term of three years commencing on 1 December 2016 at a monthly rent of HK$262,922. As at 31 December 2016, the Group expected total rental income receivable from GD Land for each of the years ending 31 December 2017, 2018 and 2019 to be approximately HK$3,155,000, HK$3,155,000 and HK$2,892,000, respectively. As at 31 December 2015, the Group's expected total amount receivable from GD Land for the year ended 31 December 2016 was approximately HK$2,722,000.

(ii) On 29 November 2013, Global Head and Guangdong Tannery Limited ("GD Tannery"), a 71.34% owned subsidiary of GDH Limited and a fellow subsidiary of the Company, entered into a tenancy agreement in relation to the leasing out of Office A2 on 19th Floor of the GDI Tower as office premises for a term of three years commencing on 6 February 2014 at a monthly rent of HK$40,960. On 28 November 2016, Global Head and GD Tannery entered into another three-year office rental agreement commencing 6 February 2017 at a monthly rental of HK$44,500. As at 31 December 2016, the Group expected total amounts receivable from GD Tannery for each of the years ending 31 December 2017, 2018 and 2019 onwards to be approximately HK$485,000, HK$534,000 and HK$586,000, respectively. As at 31 December 2015, the Group's expected total amount of receivable from GD Tannery for the year ended 31 December 2016 and the year ending 31 December 2017 were approximately HK$492,000 and HK$48,000, respectively.

(iii) On 29 May 2014, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 27th Floor of the GDI Tower as office premises for the period from 2 June 2014 to 31 May 2017 at a monthly rent of HK$247,456. As at 31 December 2016, the Group expected total rental income receivable from GDH Limited for the year ending 31 December 2017 to be approximately HK$1,237,000. As at 31 December 2015, the Group's expected total amounts receivable from GDH Limited for the year ended 31 December 2016 and the year ending 31 December 2017 were approximately HK$2,969,000 and HK$1,237,000, respectively.

(iv) On 30 September 2014, GD Teem, a non-wholly-owned subsidiary of the Company, and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of the premises on 42nd and 45th Floors of the Teem Tower as office premises for a term of three years commencing on 1 October 2014 at a monthly rent of RMB885,166.10. As at 31 December 2016, the Group expected total rental income receivable from Guangdong Holdings for the year ending 31 December 2017 to be approximately HK$8,906,000. As at 31 December 2015, the Group expected total rental income receivables from Guangdong Holdings for the year ended 31 December 2016 and the year ending 31 December 2017 were approximately HK$12,678,000 and HK$9,509,000, respectively.

37. Related Party Transactions (continued)

(c) Commitments with related parties (continued)

(v) On 15 July 2015, Global Head entered into a tenancy agreement with GDH Limited in relation to the leasing out of 26th Floor, Office B1 on 29th Floor and 30th Floor of the GDI Tower for the period from 1 August 2015 to 31 July 2018 at a monthly rent of HK$683,595. As at 31 December 2016, the Group expected total rental income receivable from GDH Limited for each of the years ending 31 December 2017 and 2018 to be approximately HK$7,520,000 and HK$4,785,000, respectively. As at 31 December 2015, the Group expected total amounts receivable from GDH Limited for the year ended 31 December 2016 and each of the years ending 31 December 2017 and 2018 were approximately HK$7,520,000, HK$7,520,000 and HK$4,785,000, respectively.

(vi) On 20 July 2015, GD Teem and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of the premises on Units 01, 02A, 07B and 08 of 35th Floor of Teem Tower as office premises for a term of three years commencing on 21 July 2015 at a monthly rent of RMB161,332.95. As at 31 December 2016, the Group expected total rental income receivable from Guangdong Holdings for each of the years ending 31 December 2017 and 2018 to be approximately HK$2,164,000 and HK$1,198,000, respectively. As at 31 December 2015, the Group expected total rental income receivables from Guangdong Holdings for the year ended 31 December 2016 and each of the years ending 31 December 2017 and 2018 were approximately HK$2,118,000, HK$2,118,000 and HK$1,280,000, respectively.

(d) Outstanding balances with related parties

	Notes	**2016 HK$'000**	2015 HK$'000
Balances due from:			
Ultimate holding company	*(i)*	**83**	245
Fellow subsidiaries	*(i)*	**2,808**	853
A fellow subsidiary	*(ii)*	**1,347**	2,385
Balances due to:			
Immediate holding company	*(i)*	**(43,262)**	(48,332)
Ultimate holding company	*(iii)*	**(3,011)**	(3,445)
Fellow subsidiaries	*(i)*	**(104,292)**	(85,515)
Loans from the ultimate holding company	*(iv)*	**–**	(313,965)
Loans from a fellow subsidiary	*(v)*	**(401,013)**	–

Notes:

(i) The balances due are unsecured, non-interest-bearing and have no specific terms of repayment.

(ii) The balance due is unsecured, non-interest-bearing and repayable within 30 days.

(iii) Included in the balance was HK$2,708,000 which represented rental deposits received from the ultimate holding company. The balance is unsecured, non-interest-bearing and repayable upon the expiry of the rental agreements. The remaining balance is unsecured, non-interest-bearing and has no specific term of repayment.

(iv) As at 31 December 2015, the balance represented loans from the ultimate holding company, which were unsecured and interest-bearing at 81.3% of the RMB benchmark 3-year lending rate per annum announced by the People's Bank of China. The loans were fully repaid during the year.

(v) Included in the balance was a loan of HK$26,828,000 from a fellow subsidiary, which is unsecured and interest-bearing at 94% of the RMB benchmark 5-year lending rate per annum announced by the People's Bank of China. The balance is repayable annually at HK$6,707,000 for each of the years ending 31 December 2017, 2018, 2019 and 2020. The remaining balance was HK$374,185,000 represented another loan from a fellow subsidiary, which is unsecured and interest-bearing at 95% RMB benchmark 3-year lending rate per annum announced by the People's Bank of China. The balance is repayable in 2019.

37. Related Party Transactions (continued)

(e) Compensation of key management personnel of the Group

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**8,223**	5,904
Post-employment benefits	**602**	502
Equity-settled share option benefits, net	**1,164**	3,826
Total compensation paid to key management personnel	**9,989**	10,232

Further details of directors' emoluments are included in note 8 to the financial statements.

38. Continuing Connected Transactions

The Group's continuing connected transactions conducted during the year disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

(a) Hotel Management Agreements

(i) On 18 December 2013, 粵海國際酒店管理(中國)有限公司 (Guangdong International Hotel Management (China) Limited▲) ("GIHM (China)"), an indirect wholly-owned subsidiary of the Company, and Take Win Investment Limited, an indirect wholly-owned subsidiary of GDH Limited, the immediate holding company of the Company, entered into a management service agreement in relation to the management of 上海粵海酒店 (Guangdong Hotel (Shanghai)) ("GD Hotel Shanghai") by GIHM (China) for the period from 1 January 2014 to 31 December 2016 for a consideration of 2% of the total operating income plus 6% of the gross operating profits ("GOP") generated by GD Hotel Shanghai;

(ii) On 18 December 2013, GIHM (China) and 深圳市東深投資控股有限公司 (Shenzhen Dongshen Investment Holding Company Limited▲), a wholly-owned subsidiary of Guangdong Holdings which holds 100% interest in GDH Limited, entered into a management service agreement in relation to the management of 深圳市東深投資控股有限公司粵海之星酒店 (GDH Inn Hotel (Donghu) ("GDH Inn Hotel")) by GIHM (China) for the period from 1 January 2014 to 31 December 2016 for a consideration of 2% of the total operating income plus 2% of the GOP generated by GDH Inn Hotel, subject to fulfilment of performance targets; and

(iii) On 18 December 2013, GIHM (China) and Kwong Leung Hing (H.K.) Properties Company Limited, an indirect wholly-owned subsidiary of GDH Limited, entered into a management service agreement in relation to the management of 河南省粵海酒店 (Guangdong Hotel (Henan) ("GD Hotel Henan")) by GIHM (China) for the period from 1 January 2014 to 31 December 2016 for a consideration of 2% of the total operating income plus 6% of the GOP generated by GD Hotel Henan.

All the above hotel management agreements are collectively referred to as the ''Hotel Management Agreements''.

During the year ended 31 December 2016, total income generated from hotel management and other services rendered to the above fellow subsidiaries by the Group in accordance with the terms of the Hotel Management Agreements amounted to approximately RMB4,586,000 (equivalent to approximately HK$5,362,000) (2015: RMB5,018,000 (equivalent to approximately HK$6,248,000), under the agreement(s) in force over the relevant previous period).

(b) Tenancy and related agreements

(i) On 29 November 2013, GPIL and GD Land entered into a tenancy agreement in relation to the leasing out of 18th Floor of the GDI Tower as office premises for a term of three years commencing on 1 December 2013 at a monthly rent of HK$247,456. On 28 November 2016, GPIL and GD Land renewed the tenancy agreement for a term of three years commencing on 1 December 2016 at a monthly rent of HK$262,922;

(ii) On 29 November 2013, Global Head and GD Tannery entered into a tenancy agreement in relation to the leasing out of Office A2 on 19th Floor of the GDI Tower as office premises for a term of three years commencing on 6 February 2014 at a monthly rent of HK$40,960.

38. Continuing Connected Transactions (continued)

(b) Tenancy and related agreements (continued)

(iii) On 29 May 2014, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 27th Floor of the GDI Tower as office premises for the period from 2 June 2014 to 31 May 2017 at a monthly rent of HK$247,456; and

(iv) On 15 July 2015, Global Head and GDH Limited entered into a tenancy agreement in relation to leasing out of 26th Floor, Office B1 on 29th Floor and 30th Floor of the GDI Tower as office premises for a term of three years commencing on 1 August 2015 at a monthly rent of HK$683,595.

The above tenancy agreements are collectively referred to as the "GDI Tower Agreements".

During the year ended 31 December 2016, the total amounts received in accordance with the terms of the GDI Tower Agreements amounted to approximately HK$13,703,000 (2015: HK$13,268,000, under the agreement(s) in force over the relevant previous period).

(v) On 30 September 2014, GD Teem and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of 42nd and 45th Floors of the Teem Tower as office premises for a term of three years commencing on 1 October 2014 at a monthly rent of RMB885,166.10; and

(vi) On 20 July 2015, GD Teem and Guangdong Holdings entered into a tenancy agreement in relation to the leasing out of the premises on Units 01, 02A, 07B and 08 of 35th Floor of Teem Tower as office premises for a term of three years commencing on 21 July 2015 at a monthly rent of RMB161,332.95.

Guangdong Holdings was also required to pay management fees and other expenses in relation to the said premises to a wholly-owned subsidiary of GD Teem which provides property management services to the said premises. The fees and expenses were calculated by reference to the applicable charging rates and the actual consumption level for the various services used by Guangdong Holdings in connection with its occupation of the said premises.

The tenancy agreement under items (v) and (vi) are collectively referred to as the "East Tower Agreements".

During the year ended 31 December 2016, the total amounts received in accordance with the terms of the East Tower Agreements amounted to approximately RMB15,331,000 (equivalent to approximately HK$17,926,000) (2015: RMB13,674,000 (equivalent to approximately HK$17,026,000), under the agreement(s) in force over the relevant previous period).

(vii) On 30 October 2015, 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.▲), a non-wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Yuehaiyangzhong Hui Agreement") with 廣州金東源房地產開發有限公司 (Guangzhou Jindongyuan Real Estate Development Company Limited▲), a wholly-owned subsidiary of Guangdong Holdings, and a management service agreement (the "Management Agreement") with 粵海物業管理有限公司越秀分公司 (GDH Property Management Co., Ltd., Yuexiu branch▲), an indirect non-wholly-owned subsidiary of Guangdong Holdings and GDH Limited, in relation to taking the premises on Basement 1 of Yuehaiyangzhong Hui, Guangzhou as department store operation for a term of three years commencing on 1 November 2015. The Yuehaiyangzhong Hui Agreement was charged at a monthly rent of 2.6% of turnover (net of applicable tax) from the date of the tenancy agreement to the end of the first nine months, and the remaining term will be charged at 3.5% of turnover. The fee under the Management Agreement was charged at RMB25 per sq.m. (inclusive of central air-conditioning and usage of water and electricity in public area) and other expenses, if any.

During the year ended 31 December 2016, the total amount in accordance with the terms of the Yuehaiyangzhong Hui Agreement and the Management Agreement amounted to approximately RMB2,442,000 (equivalent to approximately HK$2,856,000) (2015: RMB128,000 (equivalent to approximately HK$160,000)).

38. Continuing Connected Transactions (continued)

(c) Changping Agreement

On 23 December 2014, WaterCo renewed an agreement (the "Changping Agreement") with 東莞常平粵海水務有限公司 (Dongguan Changping Guangdong Water Company Limited▲) ("Changping Water"), an indirectly wholly-owned subsidiary of Guangdong Holdings, pursuant to which WaterCo agreed to supply untreated water to Changping Water for the period from 1 January 2015 to 31 December 2016, subject to renewal by agreement of both parties prior to the expiration of the term.

During the year ended 31 December 2016, total income generated by WaterCo from the provision of water in accordance with the terms of the Changping Agreement amounted to approximately RMB24,813,000 (equivalent to approximately HK$29,014,000) (2015: RMB24,874,000 (equivalent to approximately HK$30,970,000), under the agreement(s) in force over the relevant previous period).

(d) Electricity supply agreement

On 30 June 2016, ZS Thermal Power entered into an agreement (the "Electricity Supply Agreement") with 中山中粵馬口鐵工業有限公司 (Zhongshan Zhongyue Tinplate Industrial Co., Ltd.▲) ("Zhongyue Tinplate"), a wholly-owned subsidiary of Guangnan (Holdings) Limited, which is a 59.19% owned subsidiary of GDH Limited. Pursuant to the Electricity Supply Agreement and subject to the terms of a formal agreement entered into between ZS Thermal Power, Zhongyue Tinplate and 廣東電網有限責任公司 (Guangdong Power Grid Company Limited▲) ("Guangdong Power Grid") in respect of the supply of electricity by ZS Thermal Power to Zhongyue Tinplate through the power grid provided by Guangdong Power Grid (the "Tripartite Agreement"), ZS Thermal Power agreed to supply, and Zhongyue Tinplate agreed to purchase, electricity through the power grid provided by Guangdong Power Grid on a continuing basis for the period from 13 June 2016 to 31 December 2016.

During the year ended 31 December 2016, the total amount in accordance with the terms of the transactions contemplated under the Electricity Supply Agreement and the Tripartite Agreement amounted to approximately RMB12,969,000 (equivalent to approximately HK$15,165,000).

The board of directors of the Company including all the independent non-executive directors have reviewed the continuing connected transactions set out above and have unanimously confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditors were engaged to report on the Group's continuing connected transactions 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 HKICPA. The Company's auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group 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 Hong Kong Stock Exchange.

39. Pledge of Assets

As at 31 December 2016 and 2015, except for bank deposits of HK$50,306,000 (2015: Nil) pledged to secure performance obligations of certain service concession agreements, no other assets were pledged to secure bank loans granted to the Group.

40. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2016

	Loans and receivables HK$'000	**Available-for-sale financial assets HK$'000**	**Total HK$'000**
Available-for-sale financial assets	**–**	**7,628,281**	**7,628,281**
Receivables under service concession arrangements	**427,536**	**–**	**427,536**
Financial assets included in receivables, prepayments and deposits	**700,215**	**–**	**700,215**
Due from non-controlling shareholders of subsidiaries	**93,548**	**–**	**93,548**
Pledged bank deposits	**50,306**	**–**	**50,306**
Cash and bank balances	**7,194,452**	**–**	**7,194,452**
	8,466,057	**7,628,281**	**16,094,338**

2015

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial assets	–	6,228,797	6,228,797
Receivables under service concession arrangements	447,214	–	447,214
Financial assets included in receivables, prepayments and deposits	634,661	–	634,661
Due from non-controlling shareholders of subsidiaries	61,521	–	61,521
Cash and bank balances	9,295,184	–	9,295,184
	10,438,580	6,228,797	16,667,377

Financial liabilities

	Financial liabilities at amortised cost	
	2016 HK$'000	2015 HK$'000
Financial liabilities included in payables, accruals and other liabilities	**3,395,038**	4,428,799
Due to non-controlling shareholders of subsidiaries	**199,673**	367,981
Bank and other borrowings	**5,427,818**	7,572,196
	9,022,529	12,368,976

41. Fair Value Hierarchy of Financial Instruments

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

Group

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Available-for-sale financial assets	**7,623,090**	6,228,797	**7,623,090**	6,228,797

Aside from the non-current portion of receivables under service concession arrangements and bank and other borrowings, management has assessed that the fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts as at 31 December 2016 and 2015.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of receivables and bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for bank and other borrowings as at 31 December 2016 and 2015 assessed to be insignificant.

Fair value hierarchy

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

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
As at 31 December 2016				
Available-for-sale financial assets	**–**	**7,623,090**	**–**	**7,623,090**
As at 31 December 2015				
Available-for-sale financial assets	–	6,228,797	–	6,228,797

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets (2015: Nil).

42. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, comprise bank and other borrowings, available-for-sale financial assets, cash and bank balances, and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as receivables under service concession arrangements, trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(i) Interest rate risk

The Group's exposure to the risk for changes in market interest rate relates primarily to the Group's debt obligations with a floating interest rate.

With all other variables held constant, a general increase of 100 basis points in the interest rate would have decreased the Group's profit before tax by HK$53,005,000 for the year ended 31 December 2016. Whereas, a general decrease of 10 basis points in the interest rate would have increased the Group's profit before tax by HK$5,301,000 for the year ended 31 December 2016.

With all other variables held constant, a general increase of 100 basis points in the interest rate would have decreased the Group's profit before tax by HK$60,745,000 for the year ended 31 December 2015. Whereas, a general decrease of 10 basis points in the interest rate would have increased the Group's profit before tax by HK$6,074,000 for the year ended 31 December 2015.

(ii) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from revenue or expenses of operating units in currencies other than the units' functional currencies. The Group's monetary assets, financing and transactions were principally denominated in RMB and HK$. The Group is exposed to foreign exchange risk arising from changes in the exchange rate of HK$ against RMB. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future as may be necessary.

With all other variables held constant, if the Hong Kong dollar strengthened against RMB exchange rate by three percent, the Group's profit before tax would have decreased by HK$18,080,000 for the year ended 31 December 2016. Whereas, if the Hong Kong dollar weakened against RMB exchange rate by three percent, the Group's profit before tax would have increased by HK$18,080,000 for the year ended 31 December 2016.

With all other variables held constant, if the Hong Kong dollar strengthened against RMB exchange rate by three percent, the Group's profit before tax would have decreased by HK$261,524,000 for the year ended 31 December 2015. Whereas, if the Hong Kong dollar weakened against RMB exchange rate by three percent, the Group's profit before tax would have increased by HK$261,524,000 for the year ended 31 December 2015.

(iii) Credit risk

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and bank balances, receivables under service concession arrangements, other receivables and deposits and available-for-sale financial assets arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with creditworthy third parties, there is no requirement for collateral.

(iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

42. Financial Risk Management Objectives and Policies (continued)

(iv) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
31 December 2016						
Financial liabilities included in payables, accruals and other liabilities	**157,376**	**2,308,130**	**375,828**	**607,354**	**–**	**3,448,688**
Due to non-controlling shareholders of subsidiaries	**–**	**–**	**199,673**	**–**	**–**	**199,673**
Bank and other borrowings	**–**	**–**	**1,103,445**	**4,443,238**	**50,845**	**5,597,528**
	157,376	**2,308,130**	**1,678,946**	**5,050,592**	**50,845**	**9,245,889**

	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
31 December 2015						
Financial liabilities included in payables, accruals and other liabilities	578,317	3,230,704	195,601	424,177	–	4,428,799
Due to non-controlling shareholders of subsidiaries	–	–	367,981	–	–	367,981
Bank and other borrowings	–	–	663,245	7,482,974	107,998	8,254,217
	578,317	3,230,704	1,226,827	7,907,151	107,998	13,050,997

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a net debt to adjusted capital ratio which is net debt divided by total adjusted capital. The Group's policy is to keep the ratio lower than 100%. Net debt includes amounts due to non-controlling shareholders of subsidiaries, bank and other borrowings, loans from the ultimate holding company and a fellow subsidiary, less cash and bank balances.

	2016 HK$'000	2015 HK$'000
Due to non-controlling shareholders of subsidiaries	**199,673**	367,981
Bank and other borrowings	**5,427,818**	7,572,196
Loans from the ultimate holding company	**–**	313,965
Loans from a fellow subsidiary	**401,013**	–
Less: Cash and bank balances	**(7,194,452)**	(9,295,184)
Net cash	**(1,165,948)**	(1,041,042)
Equity attributable to owners of the Company	**32,221,968**	31,472,144
Net debt to adjusted capital ratio	**N/A**	N/A

43. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	924	374
Investments in subsidiaries	14,324,562	14,385,103
Total non-current assets	14,325,486	14,385,477
CURRENT ASSETS		
Amount due from a subsidiary	338,947	179,040
Available-for-sale financial assets	147,581	–
Receivables, prepayments and deposits	19,519	8,487
Cash and bank balances	23,599	1,226,859
Total current assets	529,646	1,414,386
CURRENT LIABILITIES		
Payables and accruals	(37,029)	(36,432)
Bank borrowings	(768,122)	(299,532)
Total current liabilities	(805,151)	(335,964)
NET CURRENT ASSETS/(LIABILITIES)	(275,505)	1,078,422
TOTAL ASSETS LESS CURRENT LIABILITIES	14,049,981	15,463,899
NON-CURRENT LIABILITIES		
Bank borrowings	(4,286,551)	(6,068,146)
Net assets	9,763,430	9,395,753
EQUITY		
Share capital	5,789,737	5,711,660
Reserves *(note)*	3,973,693	3,684,093
Total equity	9,763,430	9,395,753

Huang Xiaofeng
Director

Tsang Hon Nam
Director

43. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve HK$'000	Share option reserve HK$'000 *(note 30(ii))*	Exchange fluctuation reserve HK$'000	Special reserve HK$'000 *(note 30(i))*	Retained profits HK$'000	Total HK$'000
At 1 January 2015	1,733,711	45,120	(14,813)	132,204	1,455,377	3,351,599
Share options exercised, net of issue expenses	–	(25,099)	–	–	–	(25,099)
Equity-settled share option arrangements	–	9,008	–	–	–	9,008
Total comprehensive income for the year	–	–	–	–	2,225,100	2,225,100
Final 2014 dividend paid	–	–	–	–	(1,251,010)	(1,251,010)
Interim 2015 dividend paid	–	–	–	–	(625,505)	(625,505)
Transfer from retained profits in accordance with the Undertaking	–	–	–	87,551	(87,551)	–
Transfer to retained profits upon issue of new ordinary shares	–	–	–	(91,548)	91,548	–
At 31 December 2015	1,733,711	29,029	(14,813)	128,207	1,807,959	3,684,093

	Capital reserve HK$'000	**Share option reserve HK$'000 *(note 30(ii))***	**Exchange fluctuation reserve HK$'000**	**Special reserve HK$'000 *(note 30(i))***	**Retained profits HK$'000**	**Total HK$'000**
At 1 January 2016	**1,733,711**	**29,029**	**(14,813)**	**128,207**	**1,807,959**	**3,684,093**
Share options exercised, net of issue expenses	**–**	**(16,802)**	**–**	**–**	**–**	**(16,802)**
Equity-settled share option arrangements	**–**	**3,192**	**–**	**–**	**–**	**3,192**
Share options lapsed	**–**	**(101)**	**–**	**–**	**101**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**2,558,521**	**2,558,521**
Final 2015 dividend paid	**–**	**–**	**–**	**–**	**(1,503,519)**	**(1,503,519)**
Interim 2016 dividend paid	**–**	**–**	**–**	**–**	**(751,792)**	**(751,792)**
Transfer from retained profits in accordance with the Undertaking	**–**	**–**	**–**	**13,920**	**(13,920)**	**–**
Transfer to retained profits upon issue of new ordinary shares	**–**	**–**	**–**	**(61,275)**	**61,275**	**–**
At 31 December 2016	**1,733,711**	**15,318**	**(14,813)**	**80,852**	**2,158,625**	**3,973,693**

44. Event After the Reporting Period

On 19 January 2017, the Company entered into a sale and purchase agreement with GDH Limited, the immediate holding company of the Company, pursuant to which the Company has conditionally agreed to acquire approximately 73.82% of the issued share capital of GD Land at a total consideration of RMB3,358,000,000 (equivalent to approximately HK$3,780,436,000). The consideration will be settled as to (i) RMB2,518,500,000 (equivalent to approximately HK$2,835,327,000) by the allotment and issue of 272,890,019 shares of the Company; and (ii) RMB839,500,000 (equivalent to approximately HK$945,109,000) in cash.

The proposed acquisition constitutes a discloseable and connected transaction under the Listing Rules. The proposed acquisition and the specific mandate to issue the abovementioned consideration shares of the Company to GDH Limited approved by the independent shareholders of the Company at the extraordinary general meeting held on 20 March 2017 are conditional subject to the fulfilment (or waiver) of certain conditions precedent pursuant to the abovementioned sale and purchase agreement. The transaction has not been completed as at the issue date of these financial statements. Further details of the transaction are set out in the circular of the Company dated 24 February 2017.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2017.

MAJOR PROPERTIES HELD BY THE GROUP

31 December 2016

Details of Property, Plant and Equipment

Property	Lot No.	Category of lease	Use
The Wharney Guang Dong Hotel Hong Kong 57–73 Lockhart Road and 84–88 Jaffe Road Wan Chai Hong Kong	Subsection 1 of Section E and Subsection 2 of Section D of Inland Lot No. 2819, Section F of Inland Lot No. 2818, the remaining portion of Inland Lot No. 2817, Section G of Inland Lot No. 2818 and the remaining portion of Section D of Inland Lot No. 2817	Long term	Hotel
Guangdong Hotel (Hong Kong) 18 Prat Avenue Tsimshatsui Kowloon Hong Kong	Kowloon Inland Lot Nos. 8340, 8342, 8550, 8748 and 8915	Medium term	Hotel
Sheraton Guangzhou Hotel No. 208 Tianhe Road Tianhe District Guangzhou Guangdong Province Mainland China	N/A	Medium term	Hotel
Guangdong Hotel (Shen Zhen) Shennan East Road Luohu District Shenzhen Guangdong Province Mainland China	N/A	Medium term	Hotel
Guangdong Hotel (Zhu Hai) No. 1145 Yuehai Road East Gongbei, Zhuhai Guangdong Province Mainland China	N/A	Medium term	Hotel, offices and serviced apartments
Zhongshan Power Plant Lands and various buildings and structures of Huang Pu Town Zhongshan City Guangdong Province Mainland China	N/A	Short term	Factory
Flat Roof of 2nd Floor, Unit B on 22th Floor, 28th Floor, Units A and B2 on 29th Floor Guangdong Investment Tower 148 Connaught Road Central Hong Kong	Part of Marine Lot No. 332, Marine Lot No. 333, Section A and the remaining portion of Marine Lot No. 334, Marine Lot No. 335, Section A and the remaining portion of Marine Lot No. 336, Inland Lot No. 2142 and Inland Lot No. 2143	Long term	Office
Qingxi Water Distribution Facilities by the side of Shangyuan Road Sanken Reservoir, by the side of Donghuan Road Qiyeshi Reservoir and No. 28 Qingxi Avenue Qingxi Town Dongguan Guangdong Province Mainland China	N/A	Medium term	Water distribution facilities

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

31 December 2016

Details of Investment Properties

Property	Interest in property attributable to the Group	Category of lease	Existing use
Teem Tower and Teemall No. 208 Tianhe Road Tianhe District Guangzhou Guangdong Province Mainland China	76.13%	Medium term	Commercial and shopping mall
Ground Floor, 1st Floor, 5th–10th Floors, Unit A and B2 of 11th Floor, 12th Floor, 16th Floor, 19th Floor, Unit B on 20th Floor, Unit A on 22nd Floor, 23rd Floor, 25th–27th Floors, Unit B1 on 29th Floor and 30th Floor Guangdong Investment Tower 148 Connaught Road Central Hong Kong	100%	Long term	Commercial
At the junction of Heping Road and Chifeng Dao Heping District Tianjin Mainland China	76.02%	Medium term	Property under development
East of Yingbin Road Lirendong Village Nancun Town, Panyu District Guangzhou Guangdong Province Mainland China	31.06%	Medium term	Property under development

Details of Operating Concession Rights

Intangible Assets	Existing use
Water Supply Project's (from Dongguan to Shenzhen) land use rights, reservoirs and related buildings	Water Distribution
Toll Road Project's operating rights and related buildings	Toll Road

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GUANGDONG INVESTMENT LIMITED