Shenzhen International
深國際

Shenzhen International Holdings Limited
深圳國際控股有限公司
(Incorporated in Bermuda with limited liability)
Stock Code：00152

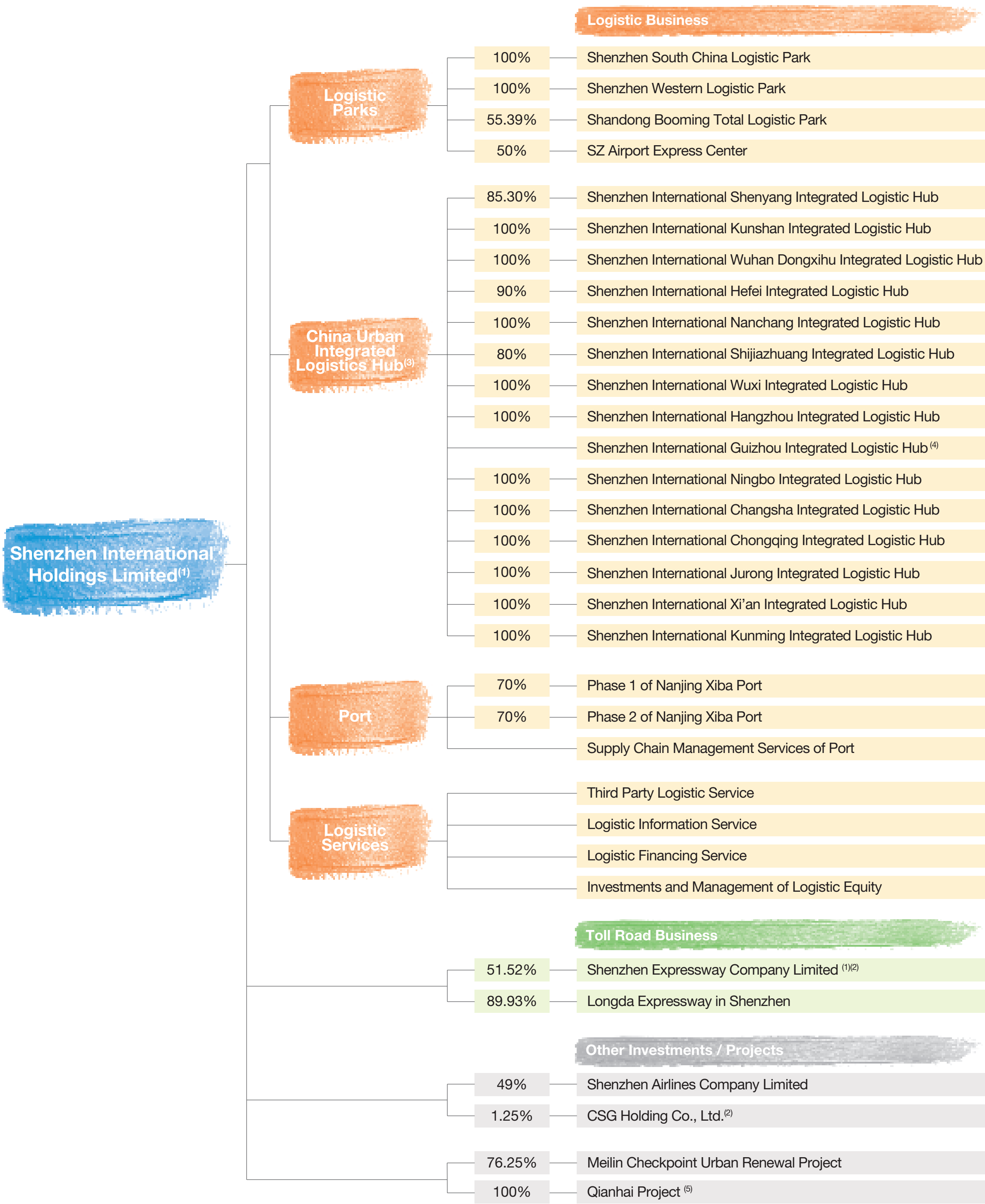
CONTENTS

CORPORATE PROFILE

Shenzhen International Holdings Limited is a company incorporated in Bermuda with limited liability and is listed on the main board of the Stock Exchange of Hong Kong. The Group is principally engaged in the investment, construction and operation of logistic infrastructure facilities, as well as providing various value-added logistic services to customers leveraging its infrastructure facilities and information services platform.

Shenzhen Investment Holdings Company Limited, the controlling shareholder of the Company, is a corporation wholly-owned by State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipal and, as at the date of this report, holds approximately 44.1% of the issued share capital of the Company.

The Group defines the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim in the PRC as strategic regions, through investment, mergers and acquisitions, restructuring and integration, the Group endeavours to design, construct and operate logistic infrastructure projects including China Urban Integrated Logistics Hub and toll roads and applies supply-chain management techniques and information technology to provide high-end and value-added logistic services to customers, and engages in the investment, construction and operation management of the macro environmental protection industry including water environment treatment and solid waste treatment, creating greater value for its shareholders.



(1) Listed company in Hong Kong
(2) Listed company in the PRC
(3) Only projects with land use rights of project sites acquired are included
(4) The project was held jointly by two wholly-owned subsidiaries and a 68.67%-owned subsidiary of the Group
(5) Excluding a residential land use project held by an associate in which the Group held 50% interests

The above is a simplified corporate structure of the Group and does not include intermediate holding entities, and the percentages of interests shown represent the percentages for which the Group has acquired effective control.

In this report, the English names of the PRC entities are translations of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:
Gao Lei *(Chairman)*
Li Hai Tao *(Chief Executive Officer)*
Zhong Shan Qun
Liu Jun
Hu Wei

Non-Executive Directors:
Xie Chu Dao
Liu Xiao Dong

Independent Non-Executive Directors:
Leung Ming Yuen, Simon
Ding Xun
Nip Yun Wing
Yim Fung

AUDIT COMMITTEE

Leung Ming Yuen, Simon *(Chairman)*
Ding Xun
Nip Yun Wing

NOMINATION COMMITTEE

Ding Xun *(Chairman)*
Leung Ming Yuen, Simon
Zhong Shan Qun

REMUNERATION AND APPRAISAL COMMITTEE

Ding Xun *(Chairman)*
Leung Ming Yuen, Simon
Gao Lei

COMPANY SECRETARY

Tam Mei Mei

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 2206-2208, 22nd Floor
Greenfield Tower, Concordia Plaza
No. 1 Science Museum Road
Tsimshatsui East
Kowloon, Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

COMPANY WEBSITE

http://www.szihl.com

SHARES

Hong Kong Stock Exchange:
Stock Code: 00152

SECURITIES

Hong Kong Stock Exchange:
USD Perpetual Securities (Stock Code: 05042)

Shenzhen Stock Exchange:
RMB Bonds (First Tranche) (Stock Code: 112636)

AUDITOR

KPMG
Certified Public Accountants
Hong Kong

LEGAL ADVISERS

Reed Smith Richards Butler *(Hong Kong Legal Advisers)*

PRINCIPAL BANKERS

Bank of China
Bank of Communications
China Citic Bank *(PRC Domestic Bank)*
China Development Bank *(PRC Domestic Bank)*
China Everbright Bank *(PRC Domestic Bank)*
China Merchants Bank
China Minsheng Bank *(PRC Domestic Bank)*
DBS Bank
Hang Seng Bank
HSBC
ING Bank N.V.
MUFG Bank, Ltd.
Oversea-Chinese Banking Corporation Ltd.
Ping An Bank
Shanghai Pudong Development Bank *(PRC Domestic Bank)*
Standard Chartered Bank
Taipei Fubon Commercial Bank, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

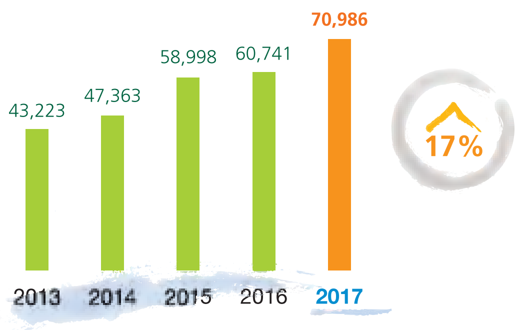
Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

INVESTOR RELATIONS CONSULTANT

Wonderful Sky Financial Group
9th Floor, The Center
99 Queen's Road Central, Central
Hong Kong

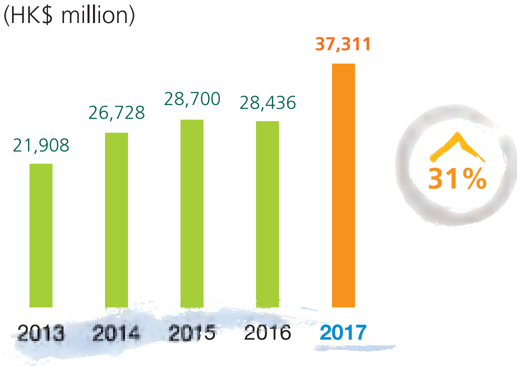
Total Assets Value

(HK$ million)



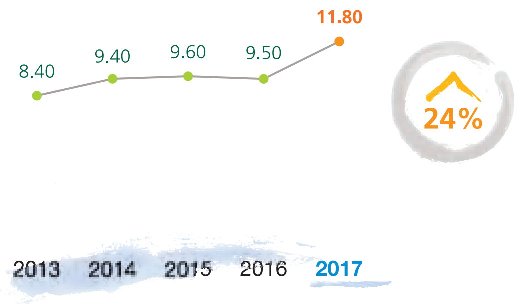
Total Equity

(HK$ million)



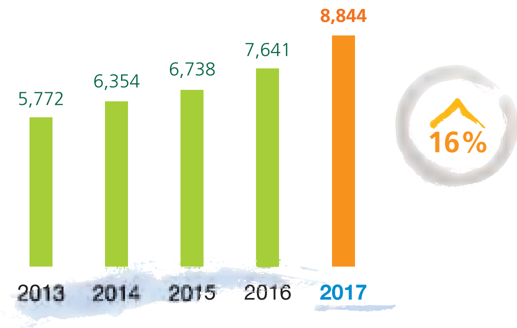
Net Asset Value per Share Attributable to Shareholders

(HK$ dollar)



Revenue*

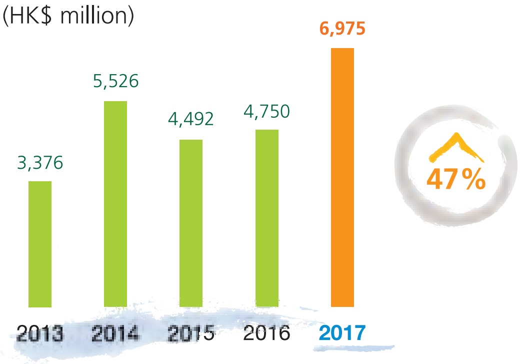
(HK$ million)



**excluding construction service revenue from toll road*

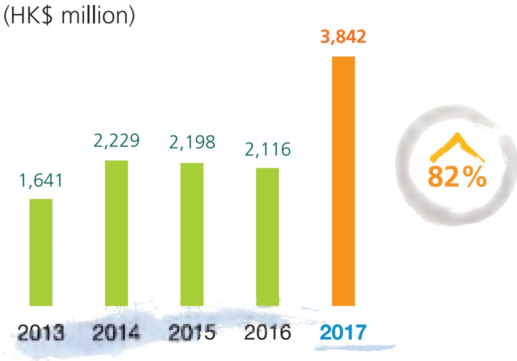
Profit before Finance Costs and Tax

(HK$ million)



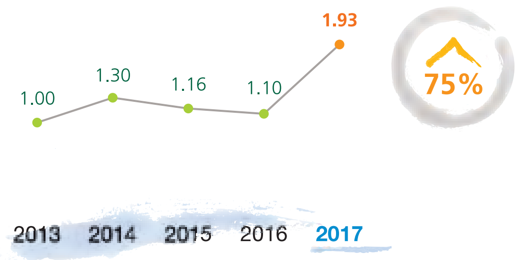
Profit Attributable to Ordinary Shareholders of the Company

(HK$ million)



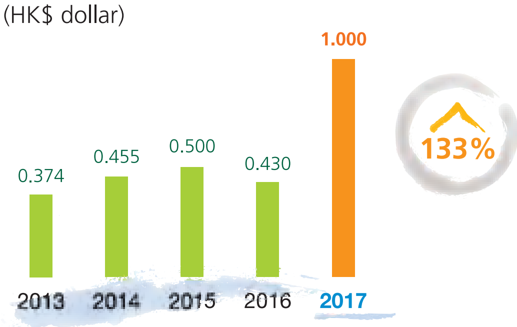
Earnings per Share (Basic)

(HK$ dollar)



Dividend per Share

(HK$ dollar)



ANALYSIS OF REVENUE AND PROFIT BEFORE FINANCE COSTS AND TAX BY PRINCIPAL ACTIVITIES

(HK$ million)	***Revenue***	***Operating profit***	***Share of profit of associates and joint ventures***	***Profit before finance costs and tax***
			2017	
Toll roads				
– Revenue	**6,248**	**2,894**	**571**	**3,465**
– Construction service revenue	**863**	**—**	**—**	**—**
Toll roads sub-total	**7,111**	**2,894**	**571**	**3,465**
Logistic business				
– Logistic parks	**564**	**160**	**12**	**172**
– Logistic services	**1,045**	**51**	**6**	**57**
– Port and related services*	**968**	**97**	**—**	**97**
Logistic business sub-total	**2,577**	**308**	**18**	**326**
Head office functions	**19**	**2,385**	**799**	**3,184**
Total	**9,707**	**5,587**	**1,388**	**6,975**
Finance income				**114**
Finance costs				**(902)**
Finance costs – net				**(788)**
Profit before income tax				**6,187**

(HK$ million)	*Revenue*	*Operating profit*	*Share of profit of associates and joint ventures*	*Profit before finance costs and tax*
			2016	
Toll roads				
– Revenue	5,910	2,549	328	2,877
– Construction service revenue	146	—	—	—
Toll roads sub-total	6,056	2,549	328	2,877
Logistic business				
– Logistic parks	572	165	16	181
– Logistic services	630	36	6	42
– Port and related services*	529	85	—	85
Logistic business sub-total	1,731	286	22	308
Head office functions	—	690	875	1,565
Total	7,787	3,525	1,225	4,750
Finance income				195
Finance costs				(1,190)
Finance costs – net				(995)
Profit before income tax				3,755

* *Port and related services included operation and management of wharf and logistic centres at Xiba Port in Nanjing, and port related supply chain management services business.*

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is depicted below. The 2017 figures are extracted from the audited financial statements. The 2013 to 2016 figures are extracted from the comparatives in the 2014 to 2017 audited financial statements.

	Year ended 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Results					
Revenue	**9,706,528**	7,787,180	6,738,397	6,370,230	5,962,765
Profit before income tax	**6,186,942**	3,754,805	3,798,508	4,755,804	2,637,192
Income tax expense	**(1,430,450)**	(837,623)	(736,318)	(1,068,622)	(530,894)
Profit before non-controlling interests	**4,756,492**	2,917,182	3,062,190	3,687,182	2,106,298
Non-controlling interests	**(914,716)**	(801,487)	(863,805)	(1,457,928)	(465,260)
Profit attributable to shareholders	**3,841,776**	2,115,695	2,198,385	2,229,254	1,641,038

	As at 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Assets and liabilities					
Fixed assets	**8,939,238**	8,075,086	5,708,636	5,566,388	5,179,736
Investment properties	**93,330**	87,390	81,450	81,240	77,700
Investments in associates	**14,284,887**	7,490,060	5,673,459	5,845,699	5,505,921
Investments in joint ventures	**248,748**	260,234	281,325	314,092	335,905
Available-for-sales financial assets	**186,912**	104,353	95,748	100,187	102,743
Intangible assets	**26,089,882**	21,286,881	23,833,564	21,066,291	23,617,718
Other non-current assets	**3,810,207**	1,428,344	1,662,889	2,030,095	389,388
Net current assets	**6,646,724**	9,189,485	13,601,948	6,845,582	3,459,050
Non-current liabilities	**(22,989,422)**	(19,486,190)	(22,239,552)	(15,121,329)	(16,760,056)
Net assets	**37,310,506**	28,435,643	28,699,467	26,728,245	21,908,105
Equity					
Issued capital	**2,028,783**	1,957,689	1,899,019	1,891,942	1,657,098
Reserves	**21,888,430**	16,676,442	16,261,024	15,810,153	12,332,641
Equity attributable to ordinary shareholders of the Company	**23,917,213**	18,634,131	18,160,043	17,702,095	13,989,739
Perpetual securities	**2,330,939**	—	—	—	—
Non-controlling interests	**11,062,354**	9,801,512	10,539,424	9,026,150	7,918,366
Total equity	**37,310,506**	28,435,643	28,699,467	26,728,245	21,908,105

KEY EVENTS IN 2017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(1) In January 2017, the Group entered into an agreement to acquire 100% equity interest in the project company of Hunan Yichang Expressway. The project company has been consolidated in the financial statements of the Group since June, which expanded the asset size and profit base of the Group

(2) In January 2017, the Company successfully received approval from the China Securities Regulatory Commission to issue Panda Bonds with an aggregate principal amount of not exceeding RMB5 billion in the PRC. The Company is the first and the only state-owned enterprise in Shenzhen being issuer of panda bonds. Both the Company and the Panda Bonds have been awarded AAA rating, the highest credit rating in the PRC, by two credit rating agencies.United Credit Ratings Co., Ltd. and Pengyuan Credit Rating Co., Ltd.

(3) In May 2017, the Group entered into an agreement to acquire 20% equity interest in Chongqing Derun Environment Company Limited

(4) In July 2017, the Group entered into an agreement to subscribe for 15% registered capital in Shenzhen Water Planning & Design Institute Company Limited upon completion of the capital injection

(5) The nationwide network layout of the "China Urban Integrated Logistics Hub" is taking shape. The integrated logistics hub projects in Nanchang, Shijiazhuang, Hangzhou and Wuxi have successively been put into operation or trial operation in 2017

(6) Substantial progress has been made for the Qianhai Project. The Group entered into a supplemental agreement to the land consolidation and preparation framework agreement with Shenzhen UPLRC and the Qianhai Authority in October 2017 to finalise the major principles of compensation for the land parcels owned by the Group in Qianhai

(7) In October 2017, the Group and a branded real estate developer entered into an entrusted construction agreement for the Meilin Checkpoint Urban Renewal Project and commenced construction of the project smoothly

(8) On 29 November 2017, the Company successfully issued US$300 million of senior perpetual capital securities with a coupon rate of 3.95% per annum which was well received by the market

(9) In December 2017, the Group entered into an agreement for the acquisition of 100% equity interest of the project company of Coastal Expressway Shenzhen section

(10) The 2016 annual report of the Company has won the Bronze Award under "Traditional Annual Report-Logistics Enterprise Group (傳統年度報告 - 物流企業組別)" in the "31st session of International ARC Awards in 2017"

(11) The Company was awarded the "2017 Shenzhen-Hong Kong Stock Connect Best Investment Value Award" and the "2017 Shanghai-Hong Kong Stock Connect Best Investment Value Award" by "China Financial Market", a leading financial magazine in Hong Kong

(12) The Company ranked 60th among 2017's Top 100 Shenzhen Enterprises in the "Top 100 Shenzhen Enterprises" jointly organised by the Shenzhen Enterprise Confederation and the Shenzhen Economic Daily, reflecting the market influence and brand value of the Company

(13) The Group has for the first time incorporated market capitalisation management into its strategies and has formulated a sub-strategy for market capitalisation management; the market capitalisation of the Company increased steadily and exceeded HK$30 billion for the first time during the year, a record high since its listing

Keep in mind our initial objective, strengthen our strategic layout foundation; build on our history and create our future, develop through industry upgrade.

Dear shareholders,

In 2017, the Group focused at advancing the construction and operation of the existing China Urban Integrated Logistics Hub as well as transforming and upgrading of the logistic parks, and the operating profit has reached another historical high level. For the year ended 31 December 2017, revenue from the core business of the Group increased by 16% to HK$8,844 million as compared to the previous year, profit attributable to shareholders increased by 82% to HK$3,842 million as compared to the previous year.

The Board of Directors has proposed to distribute a final dividend of HK$0.44 per share and a special dividend of HK$0.56 per share for 2017 to shareholders, the total amount of dividends per share will be HK$1.00 per share, representing an increase of 133% as compared to the corresponding period of the previous year, the dividend payout ratio is 53% and the total amount of dividends to be distributed is HK$2,029 million.

AFFIRM THE DEVELOPMENT DIRECTION IN THE FIVE-YEAR PLAN, FURTHER DEVELOP THE LOGISTICS INFRASTRUCTURE FACILITIES SECTOR

In 2017, the Group followed the development idea and objective as determined in the "13th Five-Year" Strategic Plan to improve the strategic layout of each key operating business on continuing basis. On one hand, we continued to drive strongly the network building for the "China Urban Integrated Logistics Hub" to complete the construction and operation of the integrated logistics hub and to use it as a base for the development of, among other businesses, logistics value-added business and logistics financial business. On the other hand, Shenzhen Expressway Company Limited ("Shenzhen Expressway"), a subsidiary of the Company, was used as a key entity to consolidate and enhance the core toll road business, for expansion to other urban and transportation infrastructure facilities sectors, and for exploring on the entry into the macro environmental protection industry with focus primarily on water environment treatment and solid waste treatment. Meanwhile, the Group conducted research and formulated a series of strategic sub-plans to further clarify the development direction for the business segments of toll road, environmental protection, port and logistics finance, and laid a foundation for the layout of breakdown segments of the core business of the Group. The Group continued to further develop the logistic infrastructure facilities sector in the aspects of investment, construction and operation, and endeavored to create a logistics ecosystem surrounding the China Urban Integrated Logistics Hub.

ENLARGE NETWORK COVERAGE OF THE CHINA URBAN INTEGRATED LOGISTICS HUB, PROMOTE COLLABORATION BETWEEN LIGHT AND HEAVY ASSETS, AND BETWEEN INDUSTRY, FINANCE AND NETWORK SECTORS

The Group clarified the core strategies for the China Urban Integrated Logistics Hub in the "13th Five-Year" Strategic Plan and advocated the collaboration between "industry, finance and network sectors" as development measures as well as the development model with both light and heavy assets. As such, based on network layout of the China Urban Integrated Logistics Hub, the Group increased efforts in the development of value-added logistic business and logistics financial business, promoted the collaboration between "industry, finance and network sectors" and implemented the dual emphasis of light and heavy assets.

Under the guidance of the "13th Five-Year" Strategic Plan and sub-strategies of the integrated logistics hub, the Group actively captured the opportunities brought by national strategies, such as "One Belt, One Road" initiative, and continued to proceed with the layout of the China Urban Integrated Logistics Hub in developed regions, such as Pearl River Delta, Yangtze River Delta and Bohai Rim. As at the date of this report, the Group had signed contracts for layout coverage in 20 logistics nodal cities across the nation, with a total planned site area of approximately 6.08 million square meters. A total of 8 projects had commenced first phase operation with an operating area of 620,000 square meters. The Group also attached high importance to operational management work, started tenant solicitation planning actively, the overall comprehensive occupancy rate was good for projects under operation.

The Group was following the development model of "transforming from the orientation in heavy assets to dual emphasis on light and heavy assets" and explored the development of value-added logistic business. On one hand, research was carried out to explore the building of a light asset operating platform to conduct coordination management for the existing third-party logistic business of the Group. On the other hand, shares held by core staff was implemented and strategic investors with complementary businesses were introduced in Shenzhen Total Logistics Service Co., Ltd., a subsidiary of the Group, in order to build a highly market-oriented system and mechanism to stimulate the corporate vitality and inherent impetus.

To realize the collaboration between "industry, finance and network sectors", the Group continued to carry out planning for the logistics financial business in 2017, and established "Shenzhen International Financial Leasing Company Limited" (深國際融資租賃有限公司) to form the logistics financial business sector comprising the logistics industry fund, small loans and financial leasing to actively explore the logistics financial value-added business model, and developed financial business including Shenzhen EDI, South China Logistics red wine supply chain and financial leasing, generating good synergy with the core logistics business of the Group. Meanwhile, the Group utilized funds or securitization to develop asset liquidity pilot points of logistics hub project to explore the closed-circuit development model of "investment, construction, management and exit" for integrated logistics hub to optimize the business model of China Urban Integrated Logistics Hub.

BREAKTHROUGH OF LAND CONSOLIDATION AND PREPARATION FOR QIANHAI PROJECT AND MEILIN CHECKPOINT URBAN RENEWAL PROJECT

The projects being proceeded by the Group, including the Qianhai project, the Meilin Checkpoint urban renewal project and the South China Logistic Park transformation and upgrading project, were in line with the regional development and urbanization in the regions where the logistic parks are located. The Group actively captured this kind of opportunistic investment opportunities and strived to maximize the value of the relevant assets for the shareholders of the Company.

In 2017, transformation and upgrading projects such as land consolidation and preparation for Qianhai project and Meilin Checkpoint urban renewal project achieved rapid progress. For the Qianhai project, the Group entered into the Supplemental Agreement to the Land Consolidation and Preparation Framework Agreement with Qianhai Authority and Shenzhen UPLRC to secure the value of the Group's land site in Qianhai and recognized a profit before taxation of RMB2,440 million for the first phase of Qianhai project, significant breakthrough was achieved in land consolidation and preparation. The first phase residential project of Qianhai to be developed jointly with a renowned real estate developer was under construction in tight pace. For the Meilin Checkpoint urban renewal project, the Group conducted research and confirmed the development model for the project, and an entrusted construction contract was entered into with another branded real estate developer, construction of the project commenced smoothly, which is expected to generate revenue starting from 2019.

SUCCESSFUL ACQUISITION OF QUALITY ASSETS, REFLECTING THE RECOGNITION AND SUPPORT FROM THE GOVERNMENT AND THE INDUSTRY

In 2017, Shenzhen Expressway, a subsidiary of the the Group, acquired a number of quality assets successfully in toll roads and other urban and transportation infrastructure facilities businesses, including the successful acquisition of Yichang Expressway and the signing of the acquisition agreement to purchase the Coastal Expressway Shenzhen Section. The aggregate increase of toll road mileage was over 100 km. The construction of the Outer Ring Expressway was also stepped up. Partial equity interests in Derun Environment and Shenzhen Water Planning & Design Institute were also acquired successfully, and collaboration with the relevant shareholders in these two companies for business expansion obtained ideal results. The successful acquisition of the above quality assets reflected the recognition and support for the Group from the government and the industry, and the Group will fully utilize its own experience to improve the operation of the projects and create greater benefits for shareholders and the community.

SUCCESSFUL ISSUANCE OF PANDA BONDS AND USD SENIOR PERPETUAL CAPITAL SECURITIES TO IMPLEMENT FINANCING INNOVATIONS

The Group has always adhered to the management characteristics of "internationalization and market-oriented", by fully utilizing the functions of the listed platform, innovating financing methods continuously and realizing new breakthrough in financing work.

In 2017, the RMB5 billion Panda Bonds planned by the Group was formally approved by the China Securities Regulatory Commission and we became the first and the only municipal State-owned enterprise in Shenzhen that was qualified to issue Panda Bonds and had issued RMB300 million Panda Bonds successfully. During the year, the Group was successful in the issuance of USD300 million senior perpetual capital securities in the capital market of Hong Kong at a relatively low price. The above innovative financing measures brought positive impact on optimizing the capital structure and reducing the cost of capital, and provided sufficient capital support for the realization of strategies and development of core businesses of the Group.

OPTIMIZE THE MANAGEMENT AND CONTROL MODEL, STANDARDIZE THE MARKET CAPITALIZATION MANAGEMENT, ENHANCING THE MANAGEMENT STANDARD

While concentrating on business development, the Group also focused on enhancing the internal management standard. In 2017, the Group commenced research on the management and control model, formulated and amended the group policies and control system mechanism, and management of market capitalization to strengthen the management basis for the long-term development of the Group. In particular, the Group included market capitalization management in the strategic area for the first time, conducted research and formulated sub-strategies for market capitalization management, and created a logistics industry investment holding platform integrating financing, logistics industrial investment and logistics business operation under one roof from the three perspectives of "industrial operation, capital operation and influence operation" containing the functions of logistics industry value discovery, value cultivation, value excavation and value realization.

OUTLOOK

At present, China is in the challenging period of transforming the way of development, optimizing the economic structure and changing the impetus for growth. The State government promulgated logistics policy measures intensively and brought leaps and bounds development opportunities to the expansion and enhancement of the logistics industry in China. Meanwhile, with clear trends in globalization, artificial intelligence and greening, the logistics industry will further increase its development pace towards artificial intelligence, and smart logistics will become an "upgraded version". In 2018, the logistics industry will develop towards the high quality aspect, both opportunities and challenges exist for the Group.

Year 2018 is a critical year under the "13th Five-Year" Strategic Plan for the Group to build on the past and prepare for the future and also a critical year for comprehensive strengthening in management and reforms and innovations. The Group will adhere to the State's strategies of development of "One Belt, One Road" initiative and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area by actively capturing the opportunities of smart logistics upgrade, proceeding with affirmative in-depth cultivation of the logistics infrastructure facilities sector, further improving the layout of the integrated logistics hub network and the operational management of the logistics hubs where operation was commenced, facilitating the redevelopment and upgrading projects of Qianhai, Meilin Checkpoint urban renewal and South China Logistic Park, while achieving great stride in the development of the Group by continuing with management improvement, enhancing operation of capital, and reforming systems and mechanisms.

SOCIAL RESPONSIBILITIES

In 2017, the Group actively performed the social responsibilities of listed companies. On one hand, the Group gathered the business structures, through the measures of planning and construction innovations, operational management innovation and technical innovation, implemented the green concepts consistently and deeply in actual business and strived to build green park zones, green ports, green expressways and green supply chains to enhance the operating efficiency and quality of the Group for contributing efforts to the sustainable development of the community and the environment. On the other hand, the "human-based" concept was upheld and we tried to provide good protection for living, diversified learning opportunities and broad development space for each of our staff to enhance the happiness and sense of belonging of our staff on continuing basis. In addition, the Group also actively participated in providing assistance focusing to Heyuan, Shenzhen with emphasis on industry support. The Dongyuan County Shenzhen International Xianhu Tea Leaves Professional Cooperative jointly established with Xinmin Village of Shangguan Township in Dongyuan County of Guangdong Province won the honors of "Demonstration Base for Famous and Quality Tea in Guangdong Province" and "Demonstration Base for Healthy Agricultural Technology in Guangdong Province" and achieved effective results in poverty alleviation work.

"The way ahead is long and far, we will overcome ups and downs to achieve the objective". The Group is full of passion and is determined to overcome any difficulties to forge ahead in the logistic infrastructure facilities sector, we have passed 2017 steadily and firmly. On behalf of the Board of Directors and senior management, I would like to take this opportunity to express our most sincere gratitude to the shareholders, investors and business partners for their dedicated support and confidence and to express our gratitude to all our staff for their diligence and precious contributions to the Group during the past year.

Gao Lei
Chairman
Hong Kong, 27 March 2018

OVERALL REVIEW

MANAGEMENT
DISCUSSION
AND ANALYSIS

OVERALL REVIEW

Operating Results	***2017 HK$'000***	*2016 HK$'000*	*Increase*
Core Business Revenue	**8,844,225**	7,640,693	16%
Construction service revenue from toll roads	**862,303**	146,487	489%
Total revenue	**9,706,528**	7,787,180	25%
Operating profit	**5,587,034**	3,525,267	58%
of which: Core Business	**3,098,381**	2,657,626	17%
Profit before finance costs and tax	**6,975,382**	4,750,416	47%
of which: Core Business	**4,486,729**	3,882,775	16%
Profit attributable to shareholders	**3,841,776**	2,115,695	82%
of which: Core Business	**2,245,333**	1,750,557	28%
Basic earnings per share (HK dollars)	**1.93**	1.10	75%
Dividend per share (HK dollar) (in aggregate)	**1.00**	0.43	133%
– Final dividend (HK dollar)	**0.44**	0.43	2%
– Special dividend (HK dollar)	**0.56**	—	N/A

In 2017, the Chinese economy has grown steadily, and the growing demand for logistics infrastructure facilities and quality logistics services has provided considerable room for the business development of the Group. The Group seized market opportunities and continued to focus on promoting the transformation and upgrading of existing operations and strategic deployment of its "China Urban Integrated Logistics Hub". The Group continuously enhanced its operational efficiency and created room for improving its value-added services. It also built a network of supply chain system to further enhance the Group's overall strength, with all business segments achieving stable growth in their operating results for the year 2017.

The Group seized the major opportunities of conversion of land use of its logistics parks in Shenzhen and vigorously advanced its transformation and upgrade work. In view of significant progress made for the land consolidation and preparation of the Qianhai Project in 2017, the Group, the Urban Planning Land and Resources Commission of the Shenzhen Municipality (深圳市規劃和國土資源委員會) ("Shenzhen UPLRC") and the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen (深圳市前海深港現代服務業合作區管理局) (the "Qianhai Authority") further entered into a supplemental agreement to the land consolidation and preparation framework agreement (the "Supplemental Agreement") in October 2017 in respect of all five land parcels with an aggregate site area of approximately 380,000 square metres in Qianhai owned by the Group. In accordance with the principles set out in the Supplemental Agreement and based on the land value assessments, the aggregate value of land sites under the new land use arrangements in Qianhai to which the Group is entitled compensation amounted to approximately HK$9,690 million (approximately RMB8,370 million). It shall be compensated through the obtaining of land sites in Qianhai under the new land use arrangements by way of swap of land sites in equivalent values, with 1 January 2015 as the benchmark date for assessing land prices. In connection therewith, the land site for the first phase of the Qianhai Project with an area of approximately 38,800 square metres obtained by the Group in December 2016 represented the Group's first compensated land site under the new land use arrangements, being the first part of the swap of land sites in respect of the aforesaid aggregate amounts of land compensation. Therefore, the land value of approximately HK$2,860 million (approximately RMB2,470 million) was no longer required to be paid to the Qianhai Authority, pursuant to which the Group recognised a profit before taxation for the year ended 31 December 2017 (the "Year") amounting to approximately HK$2,830 million (approximately RMB2,440 million), leading to a profit attributable to shareholders of approximately HK$2,122 million. Benefitting from the profit recognition mentioned above, the Group recorded an increase in profit attributable to shareholders of 82% to HK$3,842 million for the Year.

Overall Review

In 2017, while continuing to focus at implementing the strategic deployment of "China Urban Integrated Logistics Hub", the Group also steadily advanced land acquisition and construction, and actively increased its marketing efforts. Affected by the positioning deviation of the Shenyang Integrated Logistics Hub project and the weak economy in the northeast region, the leasing and sales of the project fell short of expectations. Therefore, the Group accrued a provision for impairment of approximately HK$341 million in respect of the Shenyang Integrated Logistics Hub project during the Year. The Group is in the course of strengthening its marketing and business development efforts in order to improve the operating performance of the Shenyang project. The Group believes that the operating results of the Shenyang Integrated Logistics Hub project will continue to improve along with the recovery of the economy in the northeast region. The Group's other integrated logistics hub projects that have been put into operation did not encounter similar circumstances. As of the date of this report, the Group has established its presence in 20 major logistics gateway cities and executed investment agreements for China Urban Integrated Logistics Hub projects, involving a planned site area of approximately 6.08 million square metres, of which approximately 2.70 million square metres are currently owned by the Group. A total of eight projects have been put into operation, with an operating area of 620,000 square metres. With the release of efficiency in the integrated logistics hub projects, it is expected that such projects will become another major driving force of the Group's business growth.

In respect of toll road business, the Group completed the acquisition of Hunan Yichang Expressway and signed an acquisition agreement to acquire the Shenzhen section of Guangshen Coastal Expressway (Guangzhou to Shenzhen) during the Year. As of the date of this report, the acquisition has been completed. Such acquisitions have provided strong support for the sustainable development of toll road business of the Group in the long run.

During the Year, both the Group's revenue and profit before finance costs and tax from its core business raised 16%, to HK$8,844 million and HK$4,487 million, respectively, as compared to the corresponding period of the previous year. The Group achieved satisfactory growth in profit attributable to shareholders from its core business, which amounted to HK$2,245 million, representing an increase of 28%, as compared to the corresponding period of the previous year. This was mainly driven by the increase in profits from toll road business and a decrease in finance costs of the Group as a result of appreciation of Renminbi.

During the Year, most of the toll road projects of the Group maintained growth in traffic volume and toll revenue. In addition, two toll road projects, namely Changsha Ring Road and Yichang Expressway, were consolidated in the Group's financial statements during the Year. New investment and acquisition projects also contributed profit for the Group. As a result, toll road business recorded a total revenue of HK$6,248 million, representing an increase of 6% as compared to the corresponding period of the previous year, and a profit attributable to shareholders of HK$1,032 million representing an increase of 22% as compared to the corresponding period of the previous year, which in turn contributed to the increase in the Group's profit attributable to shareholders.

Logistics business sustained stable operation during the Year. Revenue increased by 49% to HK$2,577 million, as compared to the corresponding period of the previous year, benefiting from the significant growth of the business volume of port business and being driven by the successful expansion of the third-party logistics service business and logistics financial service business. As the Group's existing logistics parks were under transformation and upgrading and China Urban Integrated Logistics Hub projects were undergoing an incubation stage, profit growth of the Group's logistics business was under pressure, which, coupled with a relatively low gross profit margin of the third party logistics service, partly offset the increase in revenue of the logistic business. Therefore, profit attributable to shareholders of logistics business amounted to HK$235 million, similar with that of the corresponding period of the previous year. Nevertheless, with the transformation and upgrade of logistics parks progressing steadily and with more China Urban Integrated Logistics Hub projects commencing operations, the growth of the Group's logistics business will be improved.

During the Year, Shenzhen Airlines Company Limited ("Shenzhen Airlines"), an associate in which the Group holds a 49% equity interest, maintained a growth in the number of carried passengers and recorded a total revenue of RMB27,646 million (equivalent to HK$31,998 million), representing an increase of 6% as compared to the corresponding period of the previous year. However, affected by the increase in aviation fuel prices, cost of aviation fuel increased significantly as compared to the corresponding period of the previous year, net profit of Shenzhen Airlines therefore decreased by 9%, to RMB1,439 million (equivalent to HK$1,665 million), as compared to the corresponding period of the previous year. Shenzhen Airline contributed a profit of approximately HK$763 million to the Group during the Year, representing a decrease of 8% as compared to the corresponding period of the previous year.

SUCCESSFUL ISSUANCE OF US DOLLAR DENOMINATED SENIOR PERPETUAL CAPITAL SECURITIES AND PANDA BONDS

The Company's successful issuance of US$300 million senior perpetual capital securities bearing an interest rate of 3.95% per annum on 29 November 2017 was rated "Baa2" by Moody's. The positive response by market demonstrated the market's recognition of both the Group's business development and profitability.

In early 2017, the Group obtained the approval from the China Securities Regulatory Commission for the issuance of corporate bonds in an aggregate principal amount not exceeding RMB5,000 million in the PRC and successfully issued the RMB300 million first tranche of bonds in early 2018.

The issuance of US dollar denominated senior perpetual capital securities and panda bonds have played an active role in optimising the capital structure and lowering the funding cost of the Group, and also provided more favourable conditions for the Group's future business development.

DIVIDEND

Having considered the composition of the profit and cash flows of the Group, the board of directors of the Company (the "Board") recommended a final dividend of HK$0.44 per share for the Year, representing a 40% payout ratio of profit generated from the Group's core business attributable to shareholders which is the same as that of 2016. The Board also proposed the payment of a special dividend of HK$0.56 per share to the shareholders. The total dividend per share is HK$1.00 (2016: final dividend of HK$0.43; special dividend: Nil), representing an increase of 133%, as compared to the previous year. Total dividend amounted to HK$2,029 million (2016: HK$842 million), representing an increase of 141%, as compared to the previous year. The Board is committed to maintaining a stable dividend policy of the Company and shares most of its one-off gain with the shareholders.

The Board recommended that the final dividend and special dividend be satisfied wholly in the form of an allotment of scrip shares. Shareholders will be given the option of receiving the final dividend and special dividend wholly in cash in lieu of such allotment, or partly in cash and partly in the form of scrip shares (the "Scrip Dividend Scheme"). The Scrip Dividend Scheme is subject to: (1) the approval of the proposed final dividend and special dividend at the forthcoming Annual General Meeting; and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

REVENUE

increased by

49%

to

HK$2,577 million

PROFIT BEFORE FINANCE COSTS AND TAX

increased by

6%

to

HK$326 million

NET PROFIT

increased by

1%

to

HK$235 million

Revenue Contribution by Logistic Business Unit

	Logistic Parks	Port	Logistic Services
2017	**22%**	**37%**	**41%**
2016	30%	31%	39%

Net Profit Contribution by Logistic Business Unit

	Logistic Parks	Port	Logistic Services
2017	**56%**	**28%**	**16%**
2016	62%	21%	17%

LOGISTIC BUSINESS

MANAGEMENT
DISCUSSION
AND ANALYSIS

Logistic Business

OVERVIEW

The Group owns various well-equipped logistic parks in Shenzhen and Yantai and has also signed investment agreements in relation to the "China Urban Integrated Logistics Hub" projects which spread across 20 major logistic gateway cities, namely Shenyang, Wuxi, Wuhan, Tianjin, Shijiazhuang, Changsha, Nanchang, Hefei, Ningbo, Hangzhou, Chengdu, Guizhou, Kunshan, Chongqing, Zhengzhou, Xi'an, Jurong, Yiwu, Kunming and Jinan. The site area currently owned and planned by the Group is 7.10 million square metres in aggregate (3.71 million square metres of which are currently owned by the Group), and the operating area is approximately 1.25 million square metres.

The Group's port business comprises one general bulk cargo terminal with a 50,000-tonnage capacity, four general bulk cargo terminals each with a 70,000-tonnage capacity and depots with a site area of 0.83 million square metres in aggregate in Nanjing Xiba Port. The port has the capability of providing various services such as loading and unloading, lightering, train loading and automobile loading, with a planned annual throughput of over 25 million tonnes. With phase 2 commencing operation, Nanjing Xiba Port has become one of the largest and most influential bulk cargo terminals along the middle and lower reaches of Yangtze River.

ANALYSIS OF OPERATING PERFORMANCE

The Group has been focusing on expanding the network and scale of its operations through the investment in and construction of logistics infrastructure in key cities across the nation, with a view to assuring its long-term sustainable development and providing drivers for future income growth.

Logistic Parks

During the Year, the Group's logistic parks maintained a relatively stable occupancy rate, with an average of approximately 96%. In 2017, the Group actively explored ways to transform and upgrade its business, so as to strengthen its relationships with existing customers and to attract new customers. The Group entered into a strategic cooperation agreement with Evergrande Agri-husbandry Group (恒大農牧集團), which is engaged in the production and distribution of spring water, grain, oil and dairy products, to provide comprehensive logistics management and operation services for its core business segments. This established a cooperation model for the outsourcing of logistics management and business operations, and was important to the transformation and upgrade of the Group's business in the third-party logistics service sector.

In 2017, South China Logistic Park made a strong effort in developing smart e-commerce cloud storage and other innovative business, which have effectively increased the storage capacity and reduced logistics costs, promoted the transformation and upgrading and achieved quality and efficiency.

Shenzhen International Kanghuai E-commerce Centre is the Group's first asset-light project operated through leasing. The project occupies a site area of approximately 38,000 square meters and a gross floor area of approximately 143,000 square meters. The construction of the project was completed at the end of 2017 and will commence full operation in 2018. Property leasing contracts have been signed in respect of nearly 90,000 square meters, and the overall occupancy rate is over 65%.

The "Pan-Bohai Rim-Shandong-Liaoning Multimodal Transportation (by means of road, railway, sea and Ro-Ro vessels) Project" led by the Group was formally recognised as the second batch of the National Multimodal Transportation Demonstration Projects. The project represents one of the specific measures of the Group in seizing opportunities to actively participate in the "One Belt, One Road" initiative.

In addition, taking into account of the strategic development needs and further optimising its overall resource allocation, the Group has disposed of all its equity interest in Nanjing UT Logistics Co., Ltd., a wholly-owned subsidiary which held and operated Nanjing Chemical Industrial Park Logistic Centre, for approximately RMB156 million in May 2017, and recorded a gain from disposal of approximately RMB34.26 million.

In recent years, e-commerce, internet finance and technological innovations have provided opportunities as well as challenges to modern logistics industry. Western Logistic Park has been awarded by the Ministry of Commerce of the People's Republic of China, as the second batch, the status of a "National Exemplary E-commerce Base", while South China Logistic Park has been listed as a pilot enterprise in cross-border e-commerce business in Shenzhen. The construction of the South China Logistic Cross-border E-commerce Exhibition Centre was completed in December 2016 and marketing was progressing as expected. In addition, the construction of phase 2 of South China Logistic Park, with a site area of 77,000 square metres, commenced in late 2016 and is being carried out on schedule. The phase 2 project has been planned for development into an integrated high-end modern logistics service hub bringing together supply chain management and logistics headquarters, logistics information centre, e-commerce industrial base, e-commerce network storage centre and integrated ancillary service platforms.

China Urban Integrated Logistics Hub

The Group has been focusing on the development of "China Urban Integrated Logistics Hub", which are essentially inter-city highway transport logistic centres with a full spectrum of functions including warehousing, transfer, distribution, e-commerce, trade exhibition and logistic information centre, providing commercial and financial value-added services. As a logistic information platform established on the basis of logistic infrastructure facilities, these integrated logistics hubs deliver a highly efficient, multi-functional and one-stop service platform to customers and business partners, as well as quality and efficient services to numerous logistic companies, producers and manufacturers.

In 2016, the Group formulated a strategic blueprint for "China Urban Integrated Logistics Hub" to map out the direction of the development, market positioning and approach of implementation for integrated logistics hubs, aiming to ensure faster and more stable development in the future.

The Group strived to promote the network and construction of "China Urban Integrated Logistics Hub" projects aiming at a nationwide coverage. The Group entered into investment agreements for the "China Urban Integrated Logistics Hub" projects with relevant government authorities of Yiwu, Wuhan Caidian and Chengdu Qingbaijiang respectively in 2017, and subsequently with the relevant government authority of Jinan in early 2018. In addition, the Group acquired Kunming project by way of merger and acquisition in early 2018.

While continuing with its efforts in developing new projects, the Group has also advanced its projects under construction or planning in a steady pace to ensure compliance with work schedules and preparation for marketing are actively underway. In the second half of 2017, the "China Urban Integrated Logistics Hub" projects in Shijiazhuang, Nanchang, Hangzhou and Wuxi were completed and put into operation or trial operation respectively, resulting in an increase of operation area of 180,000 square metres. Benefiting from the strong market demand for modern high-quality logistics facilities and effective marketing effort, the Group succeeded in maintaining remarkable occupancy rate for each project. As of 31 December, 2017, a total of eight "China Urban Integrated Logistics Hub" projects were put into operation or trial operation, with a total operating area of 623,000 square metres and an overall occupancy rate of approximately 81%.

The land acquisition work for the integrated logistics hubs has been in steady progress. In 2017, there are an addition of approximately 250,000 square meters of new land area in total for the projects in Wuxi, Ningbo and Chongqing. In addition, construction period of a number of new and continual construction projects such as those in Guizhou, Ningbo and Hangzhou have been commenced as planned during the Year, and are expected to complete and commence operation in 2018, which will result in an increase of operating area of 350,000 square meters. At the same time, construction of projects in Kunming, Chongqing, Jurong and Xi'an will commence in 2018.

As at the date of this report, the Group had established strategic presence in a total of 20 major logistics gateway cities, namely Shenyang, Wuxi, Wuhan, Tianjin, Shijiazhuang, Changsha, Nanchang, Hefei, Ningbo, Hangzhou, Chengdu, Guizhou, Kunshan, Chongqing, Zhengzhou, Xi'an, Jurong, Yiwu, Kunming and Jinan, covering a planned site area of approximately 6.08 million square metres in aggregate. Relevant investment agreements have been entered into with the respective local government authorities. Among these cities, the Group has obtained the land use rights of land parcels with an aggregate site area of approximately 2.70 million square metres for 15 projects in Shenyang, Wuxi, Wuhan, Shijiazhuang, Changsha, Nanchang, Hefei, Ningbo, Hangzhou, Guizhou, Kunshan, Jurong Chongqing, Xi'an and Kunming.

Logistic Business

Details of the "China Urban Integrated Logistics Hub" projects as at the date of this report are listed below:

China Urban Integrated Logistics Hub Project	Location	Planned Site Area (Approximate square metres)	Acquired Site Area (Approximate square metres)	Operating Area (Approximate square metres)	Commencement Date/Expected Commencement Date of Operation/ Trial Operation [(1)]
Shenyang Integrated Logistic Hub	Yuhong District of Shenyang	700,000	241,000	241,000[(2)]	4.2016
Kunshan Integrated Logistic Hub	Lujiazhen, Kunshan, Jiangsu	117,000	117,000	96,000	6.2016
Wuhan Dongxihu Integrated Logistic Hub	Dongxihu District of Wuhan	126,000	126,000	67,000	10.2016
Hefei Integrated Logistic Hub	Anhui Hefei Commercial and Logistic Development Zone of Feidong County, Hefei City	138,000	135,000	38,000	10.2016
Nanchang Integrated Logistic Hub	Nanchang Economic and Technological Development Zone	267,000	156,000	44,000	6.2017
Shijiazhuang Integrated Logistic Hub	Zhengding County of Shijiazhuang	467,000	335,000	64,000	7.2017
Wuxi Integrated Logistic Hub	Huishan District of Wuxi	347,000	246,000	27,000	10.2017
Hangzhou Integrated Logistic Hub	Hangzhou Dajiangdong Industrial Cluster, Hangzhou City	432,000	239,000	46,000	11.2017
Guizhou Integrated Logistic Hub	Guizhou Shuanglong Modern Service Industrial Cluster	348,000	338,000	–	6.2018
Ningbo Integrated Logistic Hub	Ningnan Trade and Logistic Zone, Ningbo City	194,000	92,000	–	10.2018
Changsha Integrated Logistic Hub	Changsha Jinxia Economic Development Zone	347,000	146,000	–	6.2019
Chongqing Integrated Logistic Hub	Shuangfu New District, Jiangjin District, Chongqing	157,000	104,000	–	12.2019
Xi'an Integrated Logistic Hub	Xi'an Civil Aerospace Industry Base	120,000	120,000	–	12.2019
Jurong Integrated Logistic Hub	New City District, Northern Jurong, Jiangsu	400,000	131,000	–	12.2019
Kunming Integrated Logistic Hub	Qidian Street, Yangzonghai Scenic Area, Kunming	172,000	172,000	–	12.2019
Yiwu Integrated Logistic Hub	Yunxi Village under the jurisdiction of Choucheng Street, Yiwu City	440,000	–	–	12.2019
Wuhan Caidian Integrated Logistic Hub	Changfu Logistic Center, Caidian District, Wuhan	267,000	–	–	12.2019
Chengdu Qingbaijiang Integrated Logistic Hub	International Railway Logisitc Port, Qingbaijiang District, Chengdu	129,000	–	–	12.2019
Jinan Integrated Logistic Hub	Ningjiabu Street, Zhangqiu District, Jinan	180,000	–	–	12.2019
Chengdu Xinjin Integrated Logistic Hub	Xinjin Logistic Park in Tianfu New Area, Sichuan	173,000	–	–	12.2020
Tianjin Integrated Logistic Hub	Tianjin Binhai New Area	295,000	–	–	12.2020
Zhengzhou Integrated Logistic Hub	Zhengzhou International Logistic Park, Zhengzhou Economic Development Zone	267,000	–	–	12.2020
Total site area		6,083,000	2,698,000	623,000	

Notes:

(1) The expected commencement date of operation/trial operation represents estimations only and will be updated according to future progress.

(2) Including commercial saleable area of approximately 97,000 square metres.

The "China Urban Integrated Logistics Hub" projects will grow into a cornerstone of the Group's sustainable development, along with the formation of a comprehensive nationwide network, increasing brand influence and stronger marketing ability.

Port and Related Services

In 2017, through consolidation of the Group's relationships with its existing customers, the attraction of more new customers by enhancing value-added services provided to customers and the releases of production capacity of Phase 2 project of Nanjing Xiba Port, the growth of the port business was strengthened. Meanwhile, leveraging the advantage of port resources, the Group actively expanded the port-related supply chain management service business, which further optimised the structure and drove the business volume of the port business through effective integration of the supply chain business and the traditional port business. In 2017, a total of 389 seagoing vessels berthed at Nanjing Xiba Port, total throughput of which reached 26.26 million tonnes, representing an increase of 38% as compared to the corresponding period of the previous year.

In 2017, the Group formulated a sub-strategy for "Shenzhen International Ports and Supply Chain", mapping out the direction of the development for the Group's port business. In addition, the Group has signed a cooperative framework agreement of "Shenzhen International Fengcheng Rail-water intermodal Transport Logistic Base" project with the relevant government authority of Fengcheng city, Jiangxi province. The project plays a key role in implementing the sub-strategy of "Shenzhen International Ports and Supply Chain", and has marked the first step of the port business towards outward investment and expansion, which would bring new opportunities to its future development.

Logistics Services

Relying on its existing logistics infrastructure facilities and abundance in resources and capital, the Group orchestrated a gradual transformation of its traditional logistics business and actively explored supply chain management, value chain integration and logistics finance services. In 2017, the information service business faced fierce market competition. The Group committed more resources on research and development by introducing innovative products such as data information service system. The product structure and comprehensive profitability, as a result, were further improved and strengthened. Meanwhile, the Group actively explored logistics financial service models such as small loans and finance lease and enhanced overall competitiveness of its logistics service business by optimising its operations on an ongoing basis so as to attract more new customers.

In order to further expand its third-party logistics business and enhance employee cohesion, Shenzhen Total Logistics Service Co., Ltd. ("Shenzhen Total Logistics"), a wholly-owned subsidiary of the Group, introduced strategic investors through capital contribution and implemented the core employee shareholding scheme in July 2017. After completion of the capital contribution, the Group's shareholding in Shenzhen Total Logistics was reduced to 51%.

Logistic Business

FINANCIAL ANALYSIS

Revenue from the logistic business for the Year increased by 49% to HK$2,577 million, as compared to the corresponding period of the previous year, which was mainly driven by a significant growth in the business volume of the Group's port business and the successful expansion of its third-party logistics service business and the logistics financial service business. Profit attributable to shareholders amounted to HK$235 million, maintained at a similar level with that in 2016.

Revenue of Each Logistic Business Unit
For the year ended 31 December

	2017 ***HK$'000***	2016 *HK$'000*	Increase/ (Decrease)
Logistic Park Business			
South China Logistic Park	**309,749**	251,474	23%
Western Logistic Park	**96,369**	98,568	(2%)
Integrated Logistics Hubs	**66,790**	31,646	111%
Shandong Booming Total Logistic Park^	**58,641**	60,972	(4%)
Nanjing Chemical Industrial Park Logistic Centre#	**32,472**	78,540	(59%)
Sub-total	**564,021**	521,200	8%
Port and Related Service Business+	**967,768**	529,095	83%
Logistic Service Business	**1,045,553**	680,381	54%
Total	**2,577,342**	1,730,676	49%

Profit Attributable to Shareholders of Each Logistic Business Unit
For the year ended 31 December

	2017 ***HK$'000***	2016 *HK$'000*	Increase/ (Decrease)
Logistic Park Business			
South China Logistic Park	**96,820**	89,257	8%
Western Logistic Park	**11,608**	26,953	(57%)
Integrated Logistics Hubs	**3,559**	(4,074)	N/A
Shandong Booming Total Logistic Park^	**508**	997	(49%)
Nanjing Chemical Industrial Park Logistic Centre#	**7,394**	16,310	(55%)
SZ Airport Express Center*	**11,340**	14,721	(23%)
Sub-total	**131,229**	144,164	(9%)
Port and Related Service Business+	**65,215**	49,843	31%
Logistic Service Business	**38,257**	38,484	(1%)
Total	**234,701**	232,491	1%

^ *Shandong Booming Total Logistic Park started conducting third-party logistics business at the end of 2016, relevant revenue and profits have been reclassified to logistic service business for comparison purpose*

\# *Nanjing Chemical Industrial Park Logistic Centre was sold on 1 June 2017*

* *SZ Airport Express Center is a joint venture and is accounted for using the equity accounting method*

\+ *Port and related services in 2017 included operation and management of wharf and logistic centres at Xiba Port in Nanjing, and provision of port related supply chain management services business*

During the Year, revenue from the logistic park business increased by 8%, to HK$564 million, as compared to the corresponding period of the previous year, which was mainly attributable to effective marketing efforts of South China Logistic Park and new revenue source contributed by the integrated logistics hubs. Profit attributable to shareholders decreased by 9%, to HK$131 million, as compared to the corresponding period of the previous year. This was mainly due to the impact from the disposal of Nanjing Chemical Industrial Park Logistic Centre in the first half of 2017 and certain logistics parks were undergoing transformation and upgrading, resulting in a decline in profit growth. As of the end of 2017, a total of 8 China Urban Integrated Logistics Hub projects were put into operation or trial operation. As these projects were still at their incubation stage, profit contribution to the Group was relatively low. Revenue and profit contribution from the integrated logistics hubs to the Group were approximately HK$66.79 million and HK$3.56 million, respectively, during the Year.

The port and related service business recorded a revenue of HK$968 million for the Year, representing a considerable increase of 83% as compared to the corresponding period of the previous year. Benefiting from effective marketing efforts, both business volume of the port and supply chain management service businesses achieved significant growth. Profit contribution of the port business for the Year amounted to approximately HK$65.22 million, representing an increase of 31% as compared to the corresponding period of the previous year.

The logistics service business recorded a revenue of HK$1,046 million for the Year, representing an increase of 54% as compared to the corresponding period of the previous year, which was mainly driven by the new third-party logistics service and logistics financial service businesses. Profit attributable to shareholders was HK$38.26 million, maintained at a similar level as compared to the corresponding period of the previous year, this was mainly due to a relatively low gross profit from the third-party logistics service business, and the increase in revenue was offset by the continually rising operating costs.

Updates on the Qianhai Project and Meilin Checkpoint Urban Renewal Project

Qianhai Project

Further to entering into a capital increase agreement by the Group with Shum Yip Land Company Limited (深業置地有限公司), a well-known property developer, for the joint development of the residential land site of the first phase of Qianhai Project in December 2016, the Group entered into a tripartite cooperation agreement with the Centre for Software and Integrated Circuit Promotion of the Ministry of Industry and Information Technology (工業和信息化部軟件與集成電路促進中心) and China Center for Information Industry Development (中國電子信息產業發展研究院) in the first half of 2017 to position the office building project of the first phase of Qianhai Project as an "One Belt, One Road" information port, creating an information industry base for the logistics and supply chain sector, build an information service strategic hub for "One Belt, One Road" and include it in the key tasks of the Qianhai Authority for 2017.

In October 2017, the Group further entered into a supplemental agreement of the land consolidation and preparation framework agreement with Shenzhen UPLRC and the Qianhai Authority in respect of all five land parcels with an aggregate site area of approximately 380,000 square metres in Qianhai owned by the Group. The entering into of the supplemental agreement marked a substantial progress of the Group's land consolidation and preparation work in Qianhai in land value appraisal and sharing, and drove the implementation and development of industrial businesses of Qianhai project.

In accordance with the principles set out in the supplemental agreement and based on the outcome arrived in December 2017 in respect of land appraisal under the new and previous land use arrangements as conducted by the parties, the aggregate value of land sites under the new land use arrangements in Qianhai to which the Group is entitled compensation is amounted to approximately HK$9,690 million (equivalent to approximately RMB8,370 million). By way of land swap in equivalent values, with 1 January 2015 as the benchmark date for assessing land prices, the Group will be compensated with lands under the new land use arrangements in Qianhai.

In connection therewith, the land parcel of the first phase of Qianhai project with an area of approximately 38,800 square metres obtained by the Group on 2 December 2016 represented the Group's first compensated land site in Qianhai under the new land use arrangements, being the first part of the swap of land sites in respect of the aforesaid aggregate amounts of land compensation. Therefore, the land value of approximately HK$2,860 million (approximately RMB2,470 million) was no longer required to be paid to the Qianhai Authority, which satisfied the requirements of the applicable Hong Kong accounting standards for the recognition as compensation income. Accordingly, the Group recognised a profit before taxation of approximately HK$2,830 million (equivalent to approximately RMB2,440 million) in 2017.

Logistic Business

Compensation for the consolidation and preparation of the Group's remaining land sites in Qianhai will be received as and when appropriate in accordance with the overall planning of the Qianhai Authority, and will be recognised as profit by the Group following the execution of the respective land swap agreements when the relevant amount can be reliably measured.

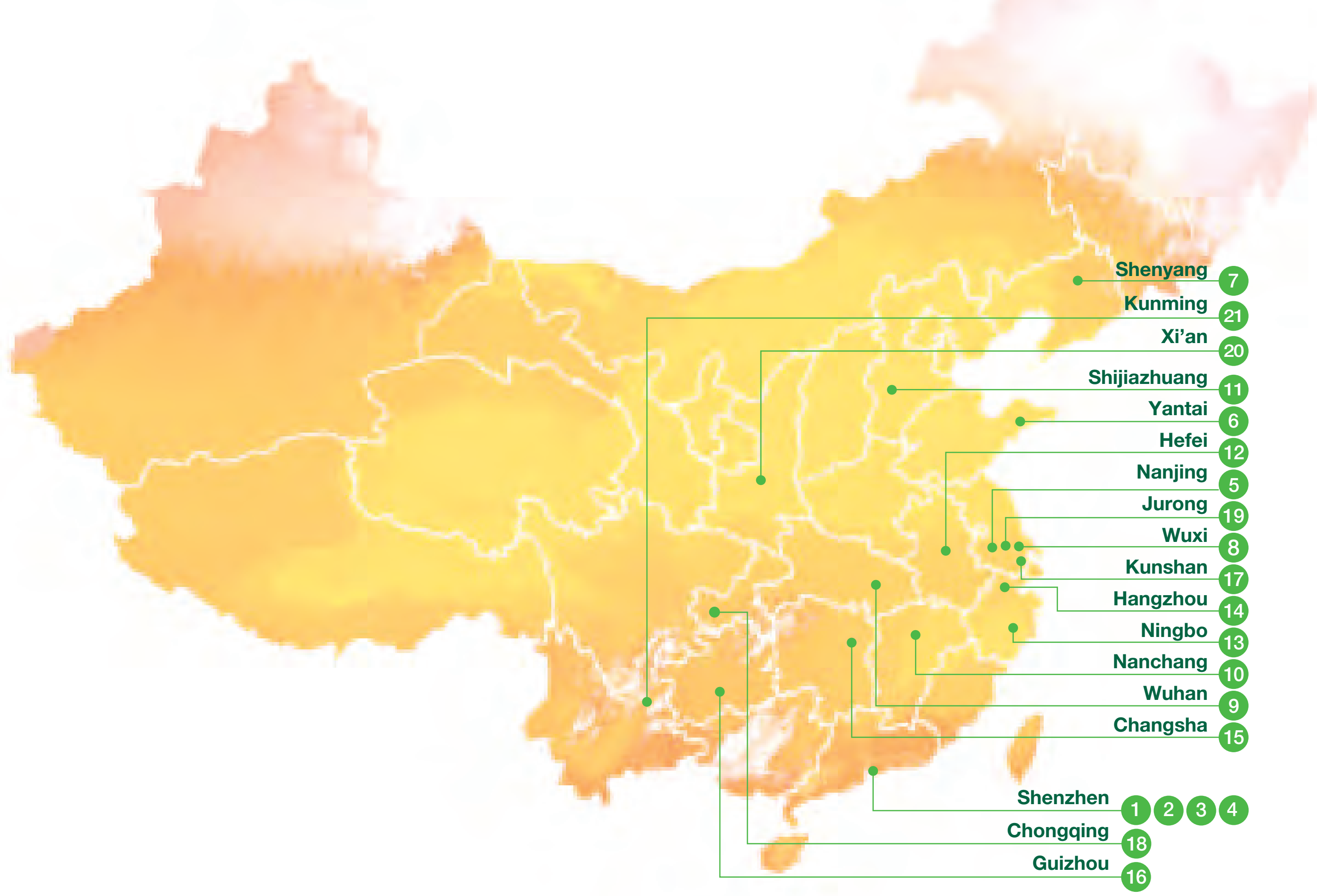
The land price in the Qianhai area has increased substantially over a period of three years since 1 January 2015 and the Qianhai area holds out broad prospects for development in future as an important component of the nation's Bay Area development strategy. As such, in addition to the land appreciation gain of the land sites of the Qianhai Project, it is expected that considerable economic return will be generated for the shareholders through land development in the Qianhai Project in the future.

Meilin Checkpoint Urban Renewal Project

The Meilin Checkpoint Urban Renewal Project is adjacent to the Futian District in downtown Shenzhen, where Huatongyuan Logistic Centre was previously situated, and is a functional development area in the city centre and a key development zone of the city. It is situated at a geographically advantageous location with good investment value and appreciation potential. The Meilin Checkpoint land parcels have been re-designated as a comprehensive development project with a total gross floor area of approximately 486,000 square metres, comprising properties for residential, commercial, office, business apartment and public and ancillary uses. Benefitting from the surge of residential property prices in Shenzhen in recent years, the land parcels of Meilin Checkpoint Urban Renewal Project are set to enjoy further growth in value.

In 2017, the Group determined the development model of the Meilin Checkpoint Urban Renewal Project and introduced a leading enterprise in the property industry as the entrusted construction entity by way of public tender. All tendering works such as entrusted construction of projects, review of construction teams and project design have been completed. The introduction of the leading property developer can complement the inexperience of the Group in developing comprehensive large real estate projects, thereby an increase in the development value of the project is expected.

LOCATIONS OF LOGISTIC BUSINESS



1. **South China Logistic Park**
   Located in Shenzhen Longhua Logistic Park
   Land area: 611,000 square metres
   Operating area: 322,000 square metres

2. **Western Logistic Park**
   Located in Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone
   Industry Cooperation Zone
   Land area: 336,000 square metres
   Operating area: 111,000 square metres

3. **SZ Airport Express Center**
   Located in Shenzhen Baoan International Airport
   Land area: 61,000 square metres
   Operating area: 33,000 square metres

4. **Shenzhen International Kanghuai E-Commerce Centre**
   Located in Shenzhen Longhua District Guanlan Pingan Road
   Land area: 38,000 square metres
   Operating area: 138,000 square metres

5. **Nanjing Xiba Port**
   Located in Nanjing Chemical Industrial Park
   Land area: 400,000 square metres
   Operating area: 220,000 square metres

6. **Shandong Booming Total Logistic Park**
   Located in the Economic and Technology Development Zone in Yantai City
   Land area: 70,000 square metres
   Operating area: 27,000 square metres

7. **Shenzhen International Shenyang Integrated Logistic Hub**
   Located in Shenyang International Logistic Park in Yuhong District of Shenyang
   Acquired site area: 241,000 square metres
   Operating area: 241,000 square metres

8. **Shenzhen International Wuxi Integrated Logistic Hub**
   Located in Huishan District of Wuxi
   Acquired site area: 246,000 square metres
   Operating area: 27,000 square metres

9. **Shenzhen International Wuhan Dongxihu Integrated Logistic Hub**
   Located in Dongxihu District of Wuhan City
   Land area: 126,000 square metres
   Operating area: 67,000 square metres

10. **Shenzhen International Nanchang Integrated Logistic Hub**
    Located in Nanchang Economic and Technological Development Zone
    Acquired site area: 156,000 square metres
    Operating area: 44,000 square metres

11. **Shenzhen International Shijiazhuang Integrated Logistic Hub**
    Located in Zhengding County of Shijiazhuang
    Acquired site area: 335,000 square metres
    Operating area: 64,000 square metres

12. **Shenzhen International Hefei Integrated Logistic Hub**
    Located in Anhui Hefei Commercial and Logistic Development Zone of Feidong County of Hefei City
    Land area: 135,000 square metres
    Operating area: 38,000 square metres

13. **Shenzhen International Ningbo Integrated Logistic Hub**
    Located in Ningnan Trade and Logistic Zone of Ningbo
    Acquired site area: 92,000 square metres

14. **Shenzhen International Hangzhou Integrated Logistic Hub**
    Located in Hangzhou Dajiangdong Industrial Cluster of Hangzhou City
    Acquired site area: 239,000 square metres
    Operating area: 46,000 square metres

15. **Shenzhen International Changsha Integrated Logistic Hub**
    Located in Changsha Jinxia Economic Development Zone
    Acquired site area: 146,000 square metres

16. **Shenzhen International Guizhou Integrated Logistic Hub**
    Located in Guizhou Shuanglong Modern Service Industrial Cluster
    Acquired site area: 338,000 square metres

17. **Shenzhen International Kunshan Integrated Logistic Hub**
    Located in Lujiazhen, Kunshan, Jiangsu
    Land area: 117,000 square metres
    Operating area: 96,000 square metres

18. **Shenzhen International Chongqing Integrated Logistic Hub**
    Located in Shuangfu New District, Jiangjin District, Chongqing
    Acquired site area: 104,000 square metres

19. **Shenzhen International Jurong Integrated Logistic Hub**
    Located in New City District, Northern Jurong, Jiangsu
    Acquired site area: 131,000 square metres

20. **Shenzhen International Xi'an Integrated Logistic Hub**
    Located in Xi'an Civil Aerospace Industry Base
    Land area: 120,000 square metres

21. **Shenzhen International Kunming Integrated Logistic Hub**
    Located in Qidian Street, Yangzonghai Scenic Area, Kunming
    Land area: 172,000 square metres

TOTAL REVENUE

increased by

6%

to

HK$6,248 million

PROFIT BEFORE FINANCE COSTS & TAX

increased by

20%

to

HK$3,465 million

NET PROFIT

increased by

22%

to

HK$1,032 million

Total Revenue Contribution

	Shenzhen Expressway *(including 100% interest in Wuhuang Expressway)*	Longda Expressway
2017	89%	11%
2016	89%	11%

Net Profit Contribution

	Shenzhen Expressway *(including 100% interest in Wuhuang Expressway)*	Longda Expressway
2017	80%	20%
2016	77%	23%

TOLL ROAD BUSINESS

MANAGEMENT
DISCUSSION
AND ANALYSIS

Toll Road Business

OVERVIEW

The Group's toll road operations span across the Shenzhen region, other regions in Guangdong Province and other provinces in China. The Group holds or controls a total of 20 expressway projects with total mileage of toll roads by toll amounting to approximately 274 kilometres, 268 kilometres and 187 kilometres in the Shenzhen region, other regions in Guangdong Province and other provinces in China, respectively, of which 65.7 kilometres are under construction, as at the date of this report. The Group operates the toll road business mainly through Shenzhen Expressway Company Limited ("Shenzhen Expressway"), a subsidiary in which the Group holds approximately 51% equity interest. Shenzhen Expressway's H shares and A shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively. In addition, the Group directly holds a 89.93% equity interest in Longda Expressway.

ANALYSIS OF OPERATING PERFORMANCE

The operating performance of the Group's toll roads during the Year was set out as follows:

				Average Daily Traffic Volume *(Note 1)*		***Average Daily Toll Revenue***	
Toll roads	***Interest held by the Group***	***Concession period***	***Length by toll (approximate km)***	***2017 (Vehicle/ Thousands)***	*Increase/ (Decrease) compared to 2016*	***2017 (RMB'000)***	*Increase/ (Decrease) compared to 2016*
Shenzhen Region (Note 2):							
Meiguan Expressway	100%	1995.05-2027.03	5.4	**92**	10.7%	**336**	8%
Jihe East	100%	1997.10-2027.03	23.7	**271**	8.5%	**1,962**	11%
Jihe West	100%	1999.05-2027.03	21.8	**215**	6.4%	**1,729**	5.3%
Shuiguan Expressway	50%	2002.02-2027.02	20	**230**	1.1%	**1,763**	4.1%
Shuiguan Extension	40%	2005.10-2027.02	6.3	**105**	7.6%	**314**	4.9%
Other regions in Guangdong Province:							
Qinglian Expressway	76.37%	2009.07-2034.07	216	**41**	12.1%	**2,017**	9.9%
Yangmao Expressway	25%	2004.11-2027.07	79.8	**50**	9.4%	**1,819**	1.1%
Guangwu Project	30%	2004.12-2027.11	37.9	**35**	(11.5%)	**832**	(18.8%)
Jiangzhong Project	25%	2005.11-2027.08	39.6	**142**	18.2%	**1,249**	10.3%
Guangzhou Western Second Ring	25%	2006.12-2030.12	40.2	**71**	21.6%	**1,343**	25.1%
Other provinces in China:							
Wuhuang Expressway	100%	1997.09-2022.09	70.3	**51**	15.6%	**1,005**	7%
Yichang Expressway and its Changde connection line ("Yichang Project") (Note 3)	100%	2004.01-2033.12	78.3	**48**	N/A	**1,157**	N/A
Changsha Ring Road (Note 4)	51%	1999.11-2029.10	34.7	**32**	22.6%	**373**	19.7%
Nanjing Third Bridge	25%	2005.10-2030.10	15.6	**33**	19.5%	**1,270**	15.7%

Notes:

(1) Average daily traffic volume excludes traffic volume which is toll-free during holidays.

(2) According to the toll adjustment and compensation agreements entered into between the Group and the relevant government department of Shenzhen on 30 November 2015 in relation to the toll adjustments of Nanguang Expressway, Yanpai Expressway, Yanba Expressway and the 23.8 km section of Longda Expressway from the starting point of Longda Expressway to the Nanguang Expressway ramp, these road sections have implemented toll-free since 0:00 on 7 February 2016. The Group calculated and recognised revenue of these road sections in accordance with the mechanism set out in the agreements. Toll of the remaining section of Longda Expressway with a mileage of 4.4 km remains unchanged but it is not comparable with the length by toll for the corresponding period of the previous year (approximately 28 km before 7 February 2016, 4.4 km thereafter). Accordingly, the operating performance of each of Nanguang Expressway, Yanpai Expressway, Yanba Expressway and Longda Expressway is not disclosed in the above table.

(3) The project company of Yichang Project has been consolidated into the Group since 15 June 2017.

(4) The project company of Changsha Ring Road has been consolidated into the Group since 1 April 2017.

During the Year, traffic volume and toll revenue of most of the Group's expressway projects increased. However, the operating performance of each expressway project was influenced in varying degrees by the continuous improvement in road network, modification of the surrounding network and the conditions of each individual project:

- Following the implementation of toll adjustment for Meiguan Expressway since 1 April 2014, the growth in traffic volume of the toll-free section has not only driven the traffic volume of its toll section but also stimulated the operating performance of the connecting Jihe Expressway.

  Toll-free for Yanpai Expressway, Yanba Expressway and Nanguang Expressway has been implemented from 7 February 2016 and the Group calculated and recognised revenue based on the method stipulated in the agreements. The growth in traffic volume of these toll-free expressways has driven the operating performance of the connecting Jihe Expressway and Shuiguan Expressway.

  However, the "Administrative Rules on Highway Driving of Overloading Vehicle"(《超限運輸車輛行駛公路管理規定》) has been implemented since late September 2016 nationally, which, to a certain extent, had a negative impact on the traffic volume of trucks and toll revenue of Jihe Expressway and Shuiguan Expressway.

- Notwithstanding the commencement of operations of Guangle Expressway and the Lianhuai section of Erguang Expressway in recent years, and the construction of the lane connecting with Erguang Expressway is still in process which led to diversion, with the completion of expansion works of Guangqing Expressway which commenced operation at the end of September 2016, the network of Qinglian Expressway has been improved, which enhanced the overall traffic efficiency and service capacity of Qinglian Expressway. In addition, with the organic growth of the overall regional traffic volume and the effect of promotion and marketing strategies of Qinglian Expressway become obvious, the effect of diversion has been weakened gradually. Toll revenue of Qianlian Expressway achieved a stable growth compared with the corresponding period of the previous year.

- Benefiting from the positive influence of factors including improvement in road network, traffic control of the surrounding roads and business growth of the enterprises nearby, toll revenue of Changsha Ring Road, which has been consolidated into the Group since 1 April 2017, maintained a faster growth compared with the corresponding period of the previous year.

- Benefiting from the positive influence of factors including growth in economy in the northwest region of Hunan and construction of surrounding roads, Yichang Expressway, which has been consolidated into the Group since 15 June 2017, achieved good operating performance.

In January 2017, the Group, through Shenzhen Expressway, entered into an agreement for the acquisition of 100% equity interest of Yichang Project, being Yichang Expressway and its Changde connection line. Yichang Expressway is a two-way expressway with four lanes which starts from Zijiang Second Bridge, Yiyang City, Hunan and ends in Deshan Tanshuping, Changde City, Hunan with a total length of approximately 73.1 km. It is a section of the connection line from Zhangjiajie to Changsha of Erguang Expressway, and also a main component of the skeleton of the "Five Vertical and Seven Horizontal" Hunan Expressway Plan. Its Changde connection line which commenced from Tanshuping to the south connection line of Yuanshui Second Bridge of Changde City, has a length of 5.2 km with Class 1 highway standard. The project company of Yichang Project has been consolidated into the Group since 15 June 2017.

Moreover, in December 2017, Shenzhen Expressway entered into an agreement for the acquisition of 100% equity interest of Shenzhen Coastal Project. As of the date of this report, the acquisition was completed and the project company has been consolidated into the Group since February 2018. Shenzhen Coastal Project is the Shenzhen section of Guangshen Coastal Expressway (Guangzhou to Shenzhen), which comprises Shenzhen Coastal Phase I and Shenzhen Coastal Phase II. Shenzhen Coastal Phase I is the main line of Shenzhen Coastal Project with toll mileage of approximately 30.9 km and its construction was completed and commenced operation at the end of 2013. Shenzhen Coastal Phase II includes the connection line on the Shenzhen side of Shenzhen-Zhongshan Channel, Airport Interchange and International Convention and Exhibition Center Interchange, etc., with a total length of approximately 5.7 km. Its construction commenced in December 2015 and is scheduled to be opened to traffic by end of 2019.

The above two acquisitions increased the toll mileage of the Group by more than 100 km, expanded the asset scale and profit base of the toll road business and also enhanced the stability of cash flow. They further strengthened the core advantages in the investment, management and operation of the highways and provided a strong support for the sustainability of the toll road business of the Group.

FINANCIAL ANALYSIS

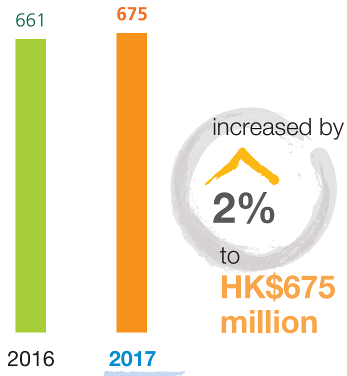
During the Year, total revenue of the Group's toll road business was approximately HK$6,248 million (2016: HK$5,910 million), representing an increase of approximately 6% as compared to the corresponding period of the previous year. Profit before finance costs and tax amounted to approximately HK$3,465 million (2016: HK$2,877 million), representing an increase of approximately 20% as compared to the corresponding period of the previous year. Net profit increased by approximately 22%, to approximately HK$1,032 million (2016: HK$846 million), as compared to the corresponding period of the previous year.

The increase in revenue of the Group's toll road business during the Year was mainly attributable to the increase in both traffic volume and toll revenue of most expressway projects of the Group, coupled with the consolidation of the project companies of Changsha Ring Road and Yichang Expressway into the Group during the Year, which contributed new revenue to the Group. Net profit also recorded a growth, which was attributable by the increase in toll revenue, together with new profit contribution by investment and acquisition projects during the Year.

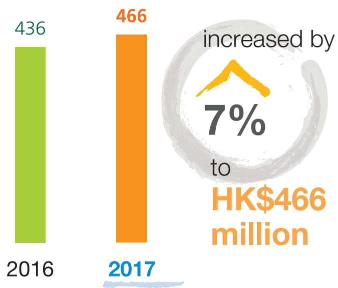
Longda Expressway

With continuous benefits from the implementation of toll-free of the Shenzhen section of Longda Expressway and Nanguang Expressway since 00:00 on 7 February 2016, which significantly increased the traffic volume, toll revenue of Longda Expressway maintained a stable growth during the Year, as compared to the corresponding period of the previous year.

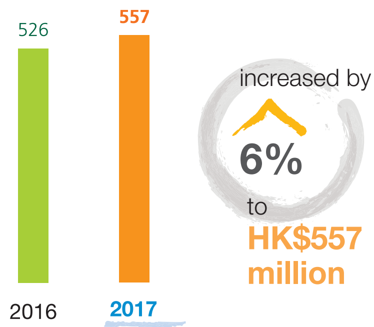
Toll Revenue (Note)
For the year ended 31 December
(HK$ million)



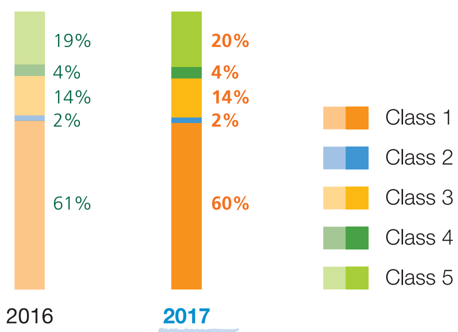
Profit Before Finance Costs and Tax
For the year ended 31 December
(HK$ million)



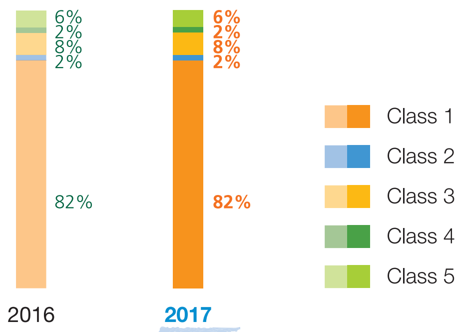
Earnings Before Interest, Tax, Depreciation and Amortisation
For the year ended 31 December
(HK$ million)



Toll Revenue (Note) Distribution
For the year ended 31 December



Traffic Volume Distribution
For the year ended 31 December



Note: Toll revenue and the relevant percentages of distribution of the Year are calculated on the bases of toll revenue from Longda Shenzhen Section calculated and recognised in accordance with the mechanism set out in the toll adjustment and compensation agreement and the actual toll revenue generated from the remaining toll section of Longda Expressway, and are presented for the purposes of financial comparison only.

Shenzhen Expressway and its expressway projects

During the Year, both traffic volume and toll revenue of most expressway projects of Shenzhen Expressway increased. Coupled with new revenue contributed by the consolidation of the project companies of Changsha Ring Road and Yichang Expressway into the Group since April and June 2017 respectively, toll revenue increased by approximately 23%, to approximately HK$4,959 million (2016: HK$4,045 million), as compared to the corresponding period of the previous year. Notwithstanding that Shenzhen Expressway Engineering Consulting Company Limited was no longer consolidated into the Group since 30 November 2016, which offset the increase in total revenue to a certain extent, total revenue of Shenzhen Expressway increased by approximately 6% to approximately HK$5,573 million (2016: HK$5,249 million), as compared to the corresponding period of the previous year. Meanwhile, benefiting from the revenue contribution by new investment and acquisition projects during the Year, profit before finance costs and tax of Shenzhen Expressway for the Year increased by approximately 23%, to approximately HK$2,999 million (2016: HK$2,441 million), as compared to the corresponding period of the previous year. The Group's share of profit from Shenzhen Expressway increased by approximately 27%, to approximately HK$826 million (2016: HK$648 million), as compared to the corresponding period of the previous year.

MAJOR CONSTRUCTION PROJECTS OF THE YEAR

As of 31 December 2017, the main construction of the Shenzhen Outer Ring project invested by the Group has fully commenced where most of the land resumption and housing demolition and relocation were completed; over 80% of land resumption and demolition for over half of the area of Shenzhen Coastal Phase II project were completed. All works were progressing in order.

NEW BUSINESS DEVELOPMENT OF SHENZHEN EXPRESSWAY

While consolidating and enhancing the asset scale, quality and efficiency of its toll road business, and taking into account the Chinese industry policies and Shenzhen Expressway's own advantages, Shenzhen Expressway has a new industry focus primarily in connection with water environment treatment and solid waste treatment, contributing towards the development of the macro environmental protection industry. During the Year, Shenzhen Expressway seized the good opportunity of injecting capital into Shenzhen Water Planning & Design Institute Company Limited ("Water Planning Company") and participating at the public trading of equity interest in Chongqing Derun Environment Company Limited ("Derun Company") at the relevant asset and equity exchange, and acquired 15% equity interest in Water Planning Company and 20% equity interest in Derun Company respectively.

Both Water Planning Company and Derun Company are the leading enterprises in the sub-segment of the environmental protection industry in which they are operating respectively. Water Planning Company is one of the first comprehensive water management survey and design organisation in the PRC. It possesses 7 A-grade qualifications in areas such as water conservation industry, municipal water supply and drainage, comprehensive engineering survey and surveying etc. It is one of the top 500 PRC enterprises in the field of survey and design, and one of the top 50 PRC enterprises in the field of water conservation survey and design. Shenzhen Expressway invested in Water Planning Company at a reasonable price and its tapping into the water environment treatment sector at high level is conducive to obtaining resources for technology research and development in respect of water environment treatment and municipal water supplies, which enhances its competitiveness in the water environment treatment market, while gaining reasonable return of investment.

Toll Road Business

With two major business segments, water treatment and waste incineration power generation, Derun Company is a comprehensive environmental enterprise with stable profitability, abundant cash flow, scale advantages, regional competitive advantage and growth potentials. The acquisition of equity interest in Derun Company by Shenzhen Expressway at a reasonable price is, on one hand, conducive to expanding its environment protection business for reasonable return of investment, and on the other hand, provides opportunities for profound cooperation with Derun Company with the advantages of complementing each other's mutual business development.

ESTIMATED CAPITAL EXPENDITURE FOR 2018

The capital expenditure of the toll road business of the Group for 2018 is expected to amount to approximately RMB1,675 million, which will mainly be used in the Shenzhen Outer Ring Project.

OTHER INVESTMENTS

OTHER INVESTMENTS

Shenzhen Airlines

During the Year, passenger transport volume of Shenzhen Airlines continued to grow, with passenger traffic of 43,830 million passenger-km (2016: 42,756 million passenger-km) and its airlines carrying 28.28 million passenger rides (2016: 27.50 million passenger rides), both increased by approximately 3% over the corresponding period of the previous year. Total revenue for the Year increased by approximately 6% to approximately RMB27,646 million (equivalent to approximately HK$31,998 million) (2016: RMB25,970 million (equivalent to approximately HK$30,194 million)) as compared to the corresponding period of the previous year, of which passenger revenue increased by 8% to RMB23,837 million (2016: RMB22,072 million).

Affected by the increase in aviation fuel price, which increased the aviation fuel cost of Shenzhen Airlines significantly year-on-year by approximately 23%, and the increase in other operating costs, the operating profit of Shenzhen Airlines recorded a decrease of approximately 52% to approximately RMB1,941 million (equivalent to approximately HK$2,247 million), as compared to the corresponding period of the previous year. Although it was benefited from an exchange gain of approximately RMB822 million (equivalent to approximately HK$951 million) during the Year (2016: exchange loss of RMB1,095 million (equivalent to approximately HK$1,273 million)), Shenzhen Airlines' net profit for the Year decreased by approximately 9% to approximately RMB1,439 million (equivalent to approximately HK$1,665 million) (2016: RMB1,573 million (equivalent to approximately HK$1,829 million)), as compared to the corresponding period of the previous year. Shenzhen Airlines contributed a profit of approximately HK$763 million (2016: HK$834 million) to the Group during the Year, representing a decrease of approximately 8% as compared to the corresponding period of the previous year.

As at 31 December 2017, Shenzhen Airlines operated a total of 203 passenger aircraft (2016: 188 passenger aircraft). Currently, Shenzhen Airlines operates 240 domestic and international routes, comprising 210 domestic routes, 20 international routes and 10 routes serving the Hong Kong, Macau and Taiwan regions.

International oil prices continued to rise during the Year, the average fuel price of Shenzhen Airlines increased by 23 % as compared to the previous year. Although international oil prices were still at a historical low level, the rise in oil prices would have a certain level of negative impact on the pressure of aviation fuel cost of Shenzhen Airlines. In 2018, as international oil prices gradually rebounded after hitting the bottom, the aviation fuel cost will create greater pressure on achieving the target profit by airline companies. Shenzhen Airlines will continue to watch closely the changes in oil prices, monitor and control the impact of oil prices on costs, and will strive to reduce the fuel consumption level through measures such as optimizing the mix of aircraft models, optimizing the mix of air routes network to increase the flying distance, reinforcing management and control of the operation process and cultivating the awareness and culture of fuel saving.

CSG HOLDING CO., LTD. ("CSG")

According to the Group's business development, capital needs and internal resource coordination, coupled with capital market conditions, the Group decreases its shareholding in CSG as and when necessary and appropriate so as to maximise the benefits of the Company and its shareholders.

During the Year, the Group did not dispose of any A shares of CSG, whereas approximately 24.57 million of A shares were sold in the previous year and recognised a gain after tax of approximately HK$255 million. As at the date of this report, the Group beneficially owned a total of approximately 30.97 million A shares of CSG, representing approximately 1.25% of the total issued share capital of CSG.

FINANCIAL POSITION

	31 December 2017 HK$ million	*31 December 2016 HK$ million*	*Increase/ (Decrease)*
Total Assets	**70,986**	60,741	17%
Total Liabilities	**33,675**	32,305	4%
Total Equity	**37,311**	28,436	31%
Net Asset Value attributable to shareholders	**23,917**	18,634	28%
Net Asset Value per share attributable to shareholders (HK dollar)	**11.8**	9.5	24%
Cash	**7,335**	11,424	(36%)
Bank borrowings	**11,490**	4,746	142%
Notes and bonds	**4,335**	7,637	(43%)
Total Borrowings	**15,825**	12,383	28%
Net Borrowings	**8,490**	959	785%
Debt-asset Ratio (Total Liabilities/Total Assets)	**47%**	53%	(6)#
Ratio of Total Borrowings to Total Assets	**22%**	20%	2#
Ratio of Net Borrowings to Total Equity	**23%**	3%	20#
Ratio of Total Borrowings to Total Equity	**42%**	44%	(2)#

Change in percentage points

Key Financial Indicators

As at 31 December 2017, the total assets and the total equity amounted to HK$70,986 million and HK$37,311 million, respectively; and the net asset value attributable to shareholders increased substantially by 28% to HK$23,917 million, while net asset value per share amounted to HK$11.8, representing an increase of 24% as compared to the end of last year. The debt-asset ratio and the ratio of total borrowings to total equity were 47% and 42%, respectively, representing 6 and 2 percentage points lower than the end of last year, respectively, underpinning the Group's continuous healthy and stable financial position.

Cash Flow and Financial Ratios

During the Year, the Group's cash flow generated from operations remained stable. Net cash inflow generated from operating activities amounted to HK$2,428 million; net cash outflow spent on investment activities amounted to HK$8,061 million; and net cash inflow generated from financing activities amounted to HK$2,908 million. The Group's core businesses maintained a stable cash inflow, while the Group closely monitored changes in total borrowings with a view to maintaining its financial ratios at a healthy level.

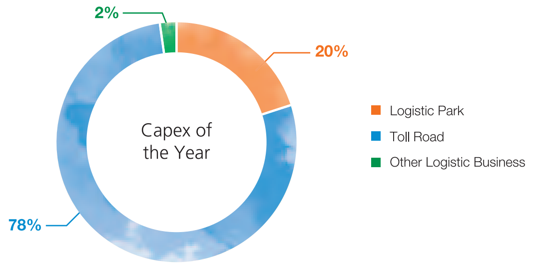
Cash Balance

As at 31 December 2017, the cash balance held by the Group amounted to HK$7,335 million (31 December 2016: HK$11,424 million), representing a decrease of 36% as compared to the end of last year, which was mainly attributable to the aggregate consideration of approximately RMB7,000 million paid by Shenzhen Expressway, a subsidiary of the Group, for the acquisition of the equity interests in Hunan Yichang Expressway Development Company Limited ("Yichang Company"), Derun Company and Shenzhen Guangshen Coastal Expressway Investment Co., Ltd. ("Coastal Company") during the Year. To facilitate the Group's operation and development in the PRC, cash held by the Group is primarily denominated in Renminbi. The Group will further strengthen its capital management pursuant to a prudent treasury policy, aiming at a higher return on its cash portfolio which would provide strong support for the development of our business.

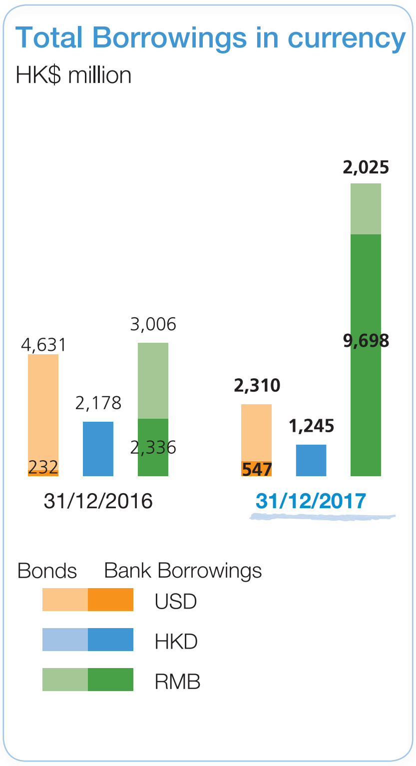
Financial Position

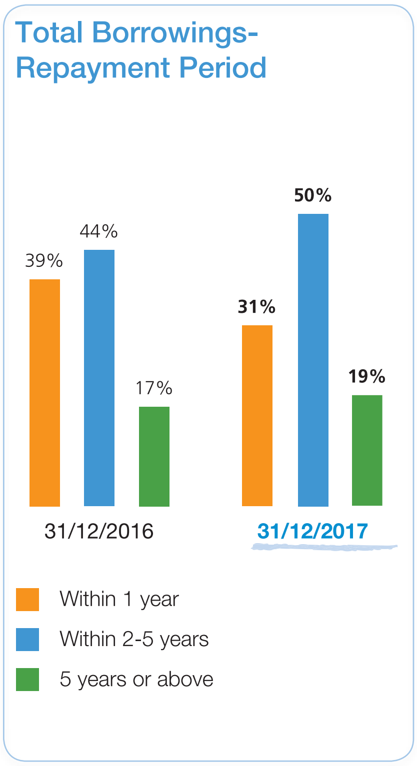
Capital Expenditures

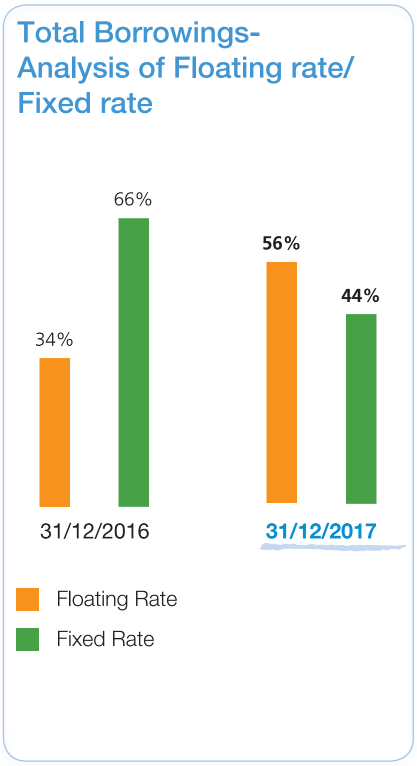
During the Year, the Group's capital expenditure amounted to RMB4,694 million (HK$5,595 million), primarily including payment for consideration of RMB1,270 million and RMB1,472 million for acquisition of the equity interests in Yichang Company and Coastal Company, respectively, and investment into construction works for the "China Urban Integrated Logistics Hub" of RMB845 million and the Outer Ring Expressway Project of RMB877 million. The Group expects the capital expenditure for the year 2018 to be approximately RMB7,000 million (HK$8,400 million), of which RMB2,400 million for "China Urban Integrated Logistics Hub" projects, approximately RMB1,650 million for the Outer Ring Expressway Project and approximately RMB1,560 million for project of United Land Company.



Borrowings







As at 31 December 2017, the Group's total borrowings amounted to HK$15,825 million, representing an increase of 28% as compared to those at last year end. Such increase of total borrowings was mainly attributable to consolidation of the borrowings of Yichang Company upon its acquisition by the Group and the increase in RMB-denominated bank borrowings in financing the new of investments and acquisitions during the Year. During the Year, the Company issued US$300 million perpetual capital securities for refinancing of US$ senior notes, leading to a price decline of bonds in US dollars. Out of the Group's total borrowings, 31%, 50% and 19% are due within 1 year, 2-5 years and 5 years or above, respectively.

In order to effectively maintain cost-effective financing for our overall capital requirement, the Group flexibly utilises both domestic and overseas financing platforms by applying different financing tools for raising long-term and low-cost funds, while actively retaining a loan portfolio comprising both short-term and long-term borrowings for continuous optimisation of our debt structure.

The Group's Financial Policy

Interest Rate Risk Management

The Group's interest rate risks arise primarily from floating-rate bank loans. The management manages interest rate risks and controls such risks within a reasonable level by closely tracking changes in the macroeconomic environment and monitoring changes in current and projected interest rates on a regular basis, taking into account conditions in the domestic and international markets. The management also regularly reviews the ratio of fixed-rate to floating-rate borrowings and seeks to manage and control the Group's interest rate risks by entering into fixed-rate loans or interest rate swap contracts for hedging purposes on a timely manner according to size and maturities of its borrowings.

Exchange Rate Risk

Cash flows, cash on hand and assets for business operated by the Group are primarily denominated in Renminbi, whereas borrowings are mainly denominated in Renminbi, Hong Kong Dollar and US Dollar. The management of the Group has been closely monitoring the fluctuation and movements of the Renminbi exchange rate. During the Year, the RMB exchange rate reversed its trend in the previous two years and appreciated 6% against the US Dollar, resulting in a foreign exchange gain of HK$310 million for the Group. Moreover, the Company issued US$300 million perpetual capital securities for refinancing of US$ senior notes in the Year. The monetary combination of our borrowings has been effectively adjusted and thus the Group's exchange rate risks are reduced. The management will continue to conduct detailed analyses and studies into the movement of Renminbi exchange rate from time to time. The Group will adopt appropriate hedging instruments to reduce the impact of fluctuation in the exchange rate of Renminbi.

Liquidity Risk Management

The Group currently has cash on hand and standby banking facilities of approximately HK$64,000 million. The Group has signed agreements with major banks in Hong Kong and Mainland China to secure credit facilities for the Group. We regularly monitor cash flow forecasts on a rolling basis and, taking into consideration our current asset level and funding needs to meet future cash flow requirements and ensure our capability to operate on an on-going basis and expand our business. The Group will also monitor the overall liability position on a timely basis in preparation for refinancing with an aim to prevent liquidity risk.

Credit Ratings

During the Year, three leading international credit rating agencies, namely Standard & Poor's, Moody's and Fitch Ratings, all maintained its BBB, Baa2, and BBB investment grade credit to the Company, respectively. Moreover, domestic credit rating agencies United Credit Ratings Co., Ltd and Pengyuan Credit Rating Co., Ltd assigned a "AAA" rating, the highest credit rating in the PRC, to the Company. These ratings reflect the quality of the Company's assets and its stable financial position, adequate cash flow and strong credit standing. The recognition from these five credit rating agencies will facilitate further expansion of the Group's financing channels, which will enable the Group to optimise its capital structure and seek financing at lower costs.

Pledge Of Assets, Guarantees And Contingencies

For details of the Group's pledge of assets, guarantees and contingencies as at 31 December 2017, please refer to notes 22 and 36 respectively of the consolidated financial statements.

OUTLOOK FOR 2018

In recent years, the Chinese Government has introduced a series of policies and measures to promote the development of logistics business, actively advanced the construction and development of "One Belt, One Road", "Guangdong-Hong Kong-Macao Greater Bay Area" and the Qianhai Free Trade Zone, which, coupled with the increasing market demand and substantial potential growth of logistic infrastructure facilities and quality logistic services, has provided considerable room for the development of the Group. The Group will continue to strengthen, optimise and expand the logistics business through implementing the core strategy, "China Urban Integrated Logistics Hub", adhering to a combination of new construction as well as merger and acquisition, stepping up the development of both asset-light and asset-heavy businesses together, making further efforts to promote the integration of its industry, finance and network sectors, further strengthening operational capabilities, strictly controlling the cost and optimising its business and assets.

In 2018, the Group will drive the investment in and construction of the "China Urban Integrated Logistics Hub" projects in the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim regions, as well as in logistic gateway cities where the Group has yet to establish its presence. New construction projects and existing construction projects in Guizhou, Ningbo and Hangzhou will be pushed forward. It is expected that additional operating area of approximately 350,000 square metres will be completed and put into operation in 2018.

At the same time, the Group will strive to acquire the land use rights for the Liguang land parcels in Longhua New Area in Shenzhen and commence preparatory work for construction of the project. Offering a gross floor area of 250,000 square metres, the Liguang land parcels will be developed into the Shenzhen gateway for "China Urban Integrated Logistics Hub", which will further strengthen the Group's market share in the logistics market of Shenzhen.

Benefiting from surging land prices in Shenzhen in recent years, the Meilin Checkpoint Urban Renewal Project are set to enjoy further growth in value. The Group has actively promoted the development and construction of the Meilin Checkpoint Urban Renewal Project, which commenced construction at the end of 2017 and will be put into full scale construction in 2018, striving for partial sales in 2019.

In connection with the Qianhai Project, the Group will step up its efforts in negotiating with Qianhai Authority and the relevant government authorities, aiming at the signing of land swap agreements in respect of compensation for land consolidation and preparation of the remaining land parcels, to timely gain appreciation income from such remaining land. Meanwhile, the construction of the first phase of the Qianhai Project, which includes industrial office land of approximately 35,000 square metres, commercial land of approximately 25,000 square metres and residential land of approximately 50,000 square metres, will be actively promoted and the sales and operations value will boom in the next few years. Pre-sale of the residential project is expected to be conducted in 2019.

In connection with the toll road business, with the deepening of urbanisation and the rising of living standards in China, demand for infrastructure facilities (including urban traffic infrastructure facilities) by the society will maintain a sustainable growth, and thus the toll road industry still enjoys rooms for development. In connection with the expansion of the environmental protection industry, the Group will strive to pursue deeper cooperation with Water Planning Company, Derun Company and their shareholders through enhancing communication and cooperation with them. Meanwhile, the Group will follow up environmental projects with preliminary progress, study into new projects and actively seek the merger and acquisition opportunities in segments.

HUMAN RESOURCES

Concept of Human Resources

The Group's human resources management is always regarded as a core component of the Group's overall strategy, striving to establish a scientific management platform for human resources aiming to create a fair and equitable social environment for the provision of sustainable talents to support the development of the Group.

Employees and Policies on Remuneration and Benefits

As of 31 December 2017, the Group had a total of 6,638 employees (2016: 7,232 employees). During the Year, expenses of staff benefits including directors' remuneration were approximately HK$971 million (2016: approximately HK$942 million).

A comprehensive management system of remuneration, motivation and constraint mechanism, and performance appraisal of the Group has been in place and has constantly been optimized. Salary is commensurate with employees' position value, competence and performance and with reference to the prevailing market conditions. Staff performance is assessed on a regular basis and the outcome of which will be reflected in remuneration and promotion. Besides, to accommodate the Group's long-term development, the Group has established a long-term incentive mechanism under which the granting of options to the management, senior management of subsidiaries and key staff members of the Group and their exercise of such options are linked to strict performance conditions so as to match incentive income with the growth of the operating results of the Company. The Group has been enhancing its existing long-term incentive mechanism, in 2017, through in-depth research on the relevant policies and regulations, coupled with the actual conditions of the Group, "Opinions on the Implementation of Reforms on the Long-term Incentive and Constraint Mechanism of Shenzhen International" (《深圳國際長效激勵約束機制改革實施意見》) were published to establish a long-term incentive and constraint mechanism at the Group level and at the level of subsidiaries that would effectively drive the Group to realize the strategic planning objectives under the "13th Five-Year" Strategic Plan. Other benefits include mandatory provident fund, medical insurance and education allowance, etc.

Employee Development and Training Program

The Group puts a strong emphasis on the recruitment and nurturing of talents, and constantly strengthens its talent recruitment and selection mechanism to expand talent acquisition channels. In 2017, the Group continually stepped up the recruitment of management personnel and professionals in the logistics sector based on its development strategies and business development requirements through market-oriented recruitment and campus recruitment, in a bid to strengthen its management and professional teams and optimize its staff mix. The Group also places a strong emphasis on the training and deployment of internal staff, through the selection of reserve talents and establishment of two-way exchange mechanism, a reserve of young talents has been realized for the Company, the management talent selection and nurturing mechanism has been improved, so that talents are selected from crucial employees who deliver outstanding performance at work and show potential for development to work in key positions of the Group.

The Group places a strong emphasis on staff training, and endeavors to improve its all-round training system. The Group drew up annual training program at the beginning of 2017, thematic training courses for training of middle and senior management, basic staff training, system training and talent pool training were conducted by levels and categories, covering subjects such as corporate reforms, corporate governance and group management and control, finance, audit, psychological knowledge and financial software, etc. Besides, we strongly encourage our staff to participate in training courses organized by external institutions, so as to enhance their professional knowledge, skills and to maintain their good physical and mental health through continuous training.

Safety and Health

The Group has been striving to provide safe, efficient and comfortable working environment for employees. In 2017, the Group continued to organize a number of safety education training programs and offered guidance to enhance the safety risk identification and prevention abilities of employees, and provided various types of physical examinations for occupational health and education materials to employees to ensure good health and good working environment for the employees.

From left to right (back row): *Mr. Xie Chu Dao, Mr. Zhong Shan Qun, Mr. Liu Jun, Mr. Hu Wei, Mr. Liu Xiao Dong and Dr. Yim Fung*
From left to right (front row): *Mr. Nip Yun Wing, Mr. Leung Ming Yuen, Simon, Mr. Gao Lei, Mr. Li Hai Tao and Mr. Ding Xun*

MEMBERS OF THE BOARD

Executive Directors

Mr. Gao Lei
Chairman, Member of the Remuneration and Appraisal Committee

Mr. Gao Lei, aged 58, was appointed in September 2012 as the Chairman of the board of directors and an executive director of the Company. Mr. Gao is responsible for devising the Group's overall development strategy and important systems, as well as supervising the implementation of resolutions of the general meetings and the board. Mr. Gao holds a master degree in money and banking from Xi'an Jiaotong University and is a senior economist. Mr. Gao had worked at the Shenzhen Branch of Bank of China, the Finance Office of Shenzhen Municipal People's Government and the General Office of Shenzhen Municipal People's Government. He had successively worked as the branch manager of Guangzhou Branch of Shenzhen Development Bank, the chief economist of Shenzhen Investment Holding Corporation as well as the chief economist and deputy director of State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipal. During the period from 2001 to 2012, Mr. Gao also worked concurrently as a director of Guosen Securities Co., Ltd., Guotai Junan Securities Co., Ltd. and the chairman of Shenzhen Tagen Group Co., Ltd. Mr. Gao is currently a director of Ultrarich International Limited. Mr. Gao has extensive experience in finance, investment, corporate management and administration.

Mr. Li Hai Tao
Chief Executive Officer

Mr. Li Hai Tao, aged 51, was appointed in June 2016 as an executive director and the Chief Executive Officer of the Company. Mr. Li is responsible for the overall daily operations of the Group and the implementation of the Group's development strategies and the resolutions of the general meetings and the board. Mr. Li studied at Peking University HSBC Business School and previously held positions in Government departments in relation to administration for industry and commerce, personnel and labor as well as public works. Mr. Li is currently a director of Ultrarich International Limited. Mr. Li has comprehensive and in-depth understanding of Chinese social governance and practices in governmental operations after having served government departments at township, county, district and municipal levels and undertaken leadership positions with various specialised authorities over a span of more than 30 years. Mr. Li has hands-on knowledge in economic management, land development, construction works, industrial and commercial administration, foreign trade and personnel management, as well as extensive exposures to various social sectors and experiences in economic management.

Mr. Zhong Shan Qun
Member of the Nomination Committee

Mr. Zhong Shan Qun, aged 53, was appointed in January 2015 as an Executive Director of the Company. Mr. Zhong joined 新通產實業開發(深圳)有限公司 (Xin Tong Chan Development (Shenzhen) Co., Ltd.) (formerly 深圳市高速公路開發有限公司 (Shenzhen Freeway Development Company Limited) which became a subsidiary of the Group in October 2001) in January 1994. From June 2007 and until his appointment as an executive director of the Company, Mr. Zhong was a Vice President of the Company. Mr. Zhong is currently a director of certain subsidiaries of the Company. Mr. Zhong was a director and the chairman of the supervisory committee of Shenzhen Expressway Company Limited. Mr. Zhong holds a bachelor's degree in highway engineering and a bachelor's degree in communications and transportation management from Changsha Communications University and also a master's degree in management science and engineering from Hunan University. Mr. Zhong has extensive experience in construction project management, logistic management and corporate management.

Mr. Liu Jun

Mr. Liu Jun, aged 54, was appointed as an Executive Director of the Company in May 2004. He was a Vice President of the Company from April 2000 to May 2017. Mr. Liu is currently a director of Shenzhen Airlines Company Limited. Mr. Liu graduated from Nanjing University of Science and Technology with a bachelor's degree in computer software and a master's degree in management system engineering. Mr. Liu was a director of CSG Holding Co., Ltd. and Shenzhen Expressway Company Limited and is currently a director of Ultrarich International Limited. Mr. Liu has over 20 years of experience in corporate development, financial management and foreign enterprise investment and management.

Mr. Hu Wei

Mr. Hu Wei, aged 55, was appointed in May 2017 as an Executive Director of the Company. He was a Vice President of the Company from August 2011 to May 2017. Mr. Hu graduated from Changsha Railway University (now known as Central South University) with a bachelor's degree in foreign languages (English). He also obtained a master's degree in risk management from University of South Australia and a master's degree in business administration from Xiamen University and is a senior economist. Mr. Hu is currently an executive director and the chairman of the board of directors of Shenzhen Expressway Company Limited (a subsidiary of the Company) and a director of certain subsidiaries of the Company. Mr. Hu worked in a number of organisations including Changsha Railway University, Henan Provincial Commission for Foreign Economic Relations and Trade, Henan Hongkong (Holdings) Limited (the window corporate of Henan Province in Hong Kong) and China Everbright Bank. Mr. Hu has extensive experience in corporate management including investment, financing, capital operations, auditing and risk management.

Non-Executive Directors

Mr. Xie Chu Dao

Mr. Xie Chu Dao, aged 47, was appointed in May 2017 as a Non-Executive Director of the Company. He graduated from Jinan University in Guangzhou majoring in Accounting. He is an accountant and certified tax advisor. He has substantial experience in financial accounting, taxation and corporate management. Mr. Xie was a director of Gansu Languang Science and Technology Co., Ltd. (甘肅蘭光科技股份有限公司) (now known as Yinyi Real Estate Co., Ltd. 銀億房地產股份有限公司). Mr. Xie has successively served as a manager, deputy general manager in finance department and group vice president of Horoy Holdings Limited since September 1999. Mr. Xie has concurrently served as a deputy general manager of Horoy Enterprise Holdings Limited and Horoy International Holdings Limited since 2006. Mr. Xie has extensive experience in financial management.

Mr. Liu Xiao Dong

Mr. Liu Xiao Dong, aged 46, was appointed in August 2017 as a Non-Executive Director of the Company. Mr. Liu graduated from Wuhan University with a bachelor degree in economics, majoring in international finance. He holds a degree of Executive Master of Business Administration from Sir John Cass Business School, The City University London (now known as City, University of London) and is an economist and certified internal auditor. Mr. Liu had worked with Bank of China (Shenzhen Branch) as deputy director of audit department, deputy general manager of personal banking department and deputy general manager of private banking department. Mr. Liu had also worked with Bank of China Insurance Company Limited as general manager of its Shenzhen Branch and its Hangzhou audit centre. Mr. Liu is currently a director of Shenzhen Investment Holdings Company Limited (the controlling shareholder of the Company) and a director of Shenzhen Gas Corporation Ltd. Mr. Liu has extensive experience in financial industry as well as risk management and internal audit.

Independent Non-Executive Directors

Mr. Leung Ming Yuen, Simon

Chairman of the Audit Committee, Member of the Nomination Committee and Remuneration and Appraisal Committee

Mr. Leung Ming Yuen, Simon, aged 69, was appointed in March 2000 as an Independent Non-Executive Director of the Company. Mr. Leung is an associate member of The Chartered Institute of Bankers and has over 30 years of experience in the banking sector including worked as the head of Credit Risk Management of Greater China at Deutsche Bank AG.

Mr. Ding Xun

Chairman of the Nomination Committee and Remuneration and Appraisal Committee, Member of the Audit Committee

Mr. Ding Xun, aged 58, was appointed in October 2001 as an Independent Non-Executive Director of the Company. Mr. Ding graduated from Maritime Transportation University of Shanghai. He had worked in the Ministry of Communications of the PRC and Guangdong Enterprises (Holdings) Limited. He was also a director of Guangdong Investment Limited, the vice-chairman of Guangdong Brewery Holdings Limited and an independent non-executive director of Dragonite International Limited (formerly known as Ruyan Group (Holdings) Limited). Mr. Ding has extensive experience in corporate development and management.

Mr. Nip Yun Wing

Member of the Audit Committee

Mr. Nip Yun Wing, aged 64, was appointed in August 2004 as an Independent Non-Executive Director of the Company. He is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Nip graduated from the Department of Accountancy of The Hong Kong Polytechnic (now renamed as The Hong Kong Polytechnic University) and holds a Master of Business Administration degree from The Chinese University of Hong Kong. He has extensive experience in corporate finance, investment and management and had served as an executive director for several listed companies in Hong Kong. Mr. Nip resigned as the executive director and the financial controller of China Overseas Land & Investment Limited with effect from 3 April 2018.

Dr. Yim Fung, JP

Dr. Yim Fung, JP, aged 54, was a Non-Executive Director of the Company from May 2014 and has been re-designated as an Independent Non-Executive Director of the Company since 17 May 2017. Dr. Yim holds a doctorate in Economics from the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院研究生院) and a bachelor degree in Environmental Engineering from the Tsinghua University (清華大學), and is a senior economist. Dr. Yim is currently the chairman and an executive director and the chief executive officer of Guotai Junan International Holdings Limited, and an independent non-executive director of Beijing Urban Construction Design & Development Group Co., Limited. Dr. Yim has over 26 years of experience in the securities industry.

From left to right: *Mr. Ge Fei, Ms. Lin Na, Mr. Zhao Jun Rong, Mr. Ji Zhi Long, Mr. Li Lu Ning, Mr. Tse Yat Hong, Mr. Yi Ai Guo and Dr. Dai Jing Ming*

SENIOR MANAGEMENT

Mr. Ji Zhi Long
Chief Compliance Officer

Mr. Ji Zhi Long, aged 55, joined the Group in December 2017 and he currently serves as Chief Compliance Officer of the Company. Mr. Ji graduated from South China Agricultural College (now known as South China Agricultural University) with a bachelor's degree. He is a senior political advisor, deputy editor, senior corporate culture consultant and senior corporate EAP consultant. Mr. Ji had successively undertaken key leadership positions of Shiyan, Dapeng and Pinghu, Shenzhen, a chief editor of Haitian Publishing House, Shenzhen, an executive director and deputy general manager of Shenzhen Bus Group Co., Ltd. Mr. Ji is well versed in both government operation and corporate management.

Mr. Li Lu Ning
Vice President

Mr. Li Lu Ning, aged 58, was appointed as a Vice President of the Company in September 2012. He was an Executive Director of the Company from September 2012 to May 2017. Mr. Li holds a bachelor's degree in law from Nankai University and is a senior economist. Mr. Li had successively worked as the deputy general manager of Shenzhen Dachanwan Investment & Development Co., Ltd. (深圳市大鏟灣投資發展有限公司) and a director of Shenzhen Metro Group Co., Ltd. Mr. Li is currently the vice chairman of Shenzhen Airlines Company Limited and a director of Ultrarich International Limited. Mr. Li has extensive experience in corporate management.

Mr. Zhao Jun Rong
Vice President

Mr. Zhao Jun Rong, aged 53, joined the Group as legal consultant, assistant to the Chief Executive Officer and manager of the Strategic Devtelopment Department in October 2001 and was appointed as a Vice President of the Company in June 2007. Mr. Zhao graduated from Xiamen University with a master's degree in international economic law and was a lawyer. Mr. Zhao worked successively at China Ping An Insurance Co. and Shenzhen Investment Holding Corporation. Mr. Zhao has extensive experience in corporate management and the legal profession. Mr. Zhao was a non-executive director of Shenzhen Expressway Company Limited.

Mr. Tse Yat Hong
CFO

Mr. Tse Yat Hong, aged 48, joined the Group in June 2000 and he currently serves as CFO of the Company. Mr. Tse graduated from Monash University in Australia with a bachelor's degree in accounting and computer science. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse is currently an independent non-executive director of China Huirong Financial Holdings Limited and Sky Light Holdings Limited. Mr. Tse was a non-executive director of Shenzhen Expressway Company Limited. Prior to joining the Company, Mr. Tse worked in the audit profession in one of the international accounting firms for years. Mr. Tse has extensive experience in accounting, finance and corporate governance matters of listed companies and has broad knowledge in accounting and financial rules and regulations in Hong Kong and China.

Ms. Lin Na
Vice President

Ms. Lin Na, aged 51, was appointed as a Vice President of the Company in February 2017. Ms. Lin graduated from College of Economics Jinan University majoring in International Economics and is a senior economist. Prior to joining the Company, Ms. Lin had successively worked as the vice general manager and general manager of various business units of the headquarter and president of Offshore Banking Department for Ping An Bank Co., Ltd. (formerly Shenzhen Development Bank Co., Ltd.). Ms. Lin has extensive experience in the finance industry and corporate management.

Mr. Ge Fei
Vice President

Mr. Ge Fei, aged 49, was appointed as a Vice President of the Company in May 2017. He graduated from the Department of Civil Engineering of Northern Jiaotong University (now known as Beijing Jiaotong University) with a bachelor's degree in railway engineering. Mr. Ge joined 新通產實業開發(深圳)有限公司 (Xing Tong Chan Development (Shenzhen) Co., Ltd.) (formerly 深圳市高速公路開發有限公司 (Shenzhen Freeway Development Company Limited) which became a subsidiary of the Company in October 2001) in January 1994. He joined Shenzhen Expressway Company Limited in October 1998 and had worked successively as deputy general manager and general manager of various expressway projects of and the engineering controller and a vice president of Shenzhen Expressway Company Limited. He was the chairman of Shenzhen International Logistics Development Co., Ltd., a subsidiary of the Company. Mr. Ge has extensive experience in construction project management, land development, logistic management, corporate management and investment.

Mr. Yi Ai Guo
Vice President

Mr. Yi Ai Guo, aged 54, was appointed as a Vice President of the Company in May 2017. He graduated from Southwest Jiaotong University with a postgraduate and a master's degree in railway transportation management. He is also an economist. After graduation, Mr. Yi worked in Guangzhou Railway (Group) Corporation for 11 years and joined Shenzhen Expressway Company Limited in October 1998. He had worked as the general manager of Operations Management Department and was a supervisor of Shenzhen Expressway Company Limited. Since March 2008, he worked successively as a director, the general manager and the chairman of Nanjing Xiba Wharf Co. Ltd., a subsidiary of the Company. Mr. Yi has extensive experience in logistic management, construction project management and integrated corporate management of various modes of transportation including railways, highways and water transport.

Dr. Dai Jing Ming
Financial Controller

Dr. Dai Jing Ming, aged 53, joined the Group as Financial Controller in August 2017. Dr. Dai graduated from the Faculty of Agricultural Mechanical Engineering of China Huazhong Agricultural University with a bachelor of engineering degree in 1986 and from The Zhongnan University of Economics and Law with a master degree in economics in 1992. He also obtained his Ph.D. degree in economics from The China Ministry of Finance Institute of Fiscal Science in 1998. He is currently an accountant. Prior to joining the Group, he held a position as a general manager of planning and finance department of Shenzhen Investment Limited and Shum Yip Group Ltd. Prior to this, he worked in Hubei Province Agricultural Engineering Head Limited and Wuhan City Branch of the Agricultural Bank of China. Dr. Dai has extensive knowledge and experience in corporate finance, investment and financing management.

The board of directors of the Company (the "Board") herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017 (the "Year").

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the investment, construction and operation of logistic infrastructure facilities, as well as providing various value-added logistic services to customers leveraging its infrastructure facilities and information services platform. Particulars of the principal activities of the Company's principal subsidiaries are set out in note 40 to the consolidated financial statements.

Particulars of a discussion and analysis on the activities specified in Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business, a discussion on the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, are set out in this report with the rest setting out in the sections headed "**CHAIRMAN'S STATEMENT**", "**MANAGEMENT DISCUSSION AND ANALYSIS**" and "**CORPORATE GOVERNANCE REPORT**" in this annual report. The above sections form an integral part of this annual report.

RESULTS OF THE GROUP

The Group's results for the year ended 31 December 2017 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 83 to 172.

DIVIDENDS

The Board recommended a final dividend of HK$0.44 per share for the Year and also recommended a special dividend of HK$0.56 per share. Total dividend for the Year was HK$1.00 per share (2016: final dividend of HK$0.43 per share; special dividend: Nil). The total dividend for the Year amounted to approximately HK$2,029 million (2016: HK$842 million).

The Board recommended that the final dividend and special dividend be satisfied wholly in the form of an allotment of scrip shares. Shareholders will be given the option of receiving the final dividend and special dividend wholly in cash in lieu of such allotment, or partly in cash and partly in the form of scrip shares (the "Scrip Dividend Scheme"). The Scrip Dividend Scheme is subject to: (1) the approval of the proposed final dividend and special dividend at the forthcoming annual general meeting; and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the scrip shares to be issued pursuant thereto. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders of the Company on or about 25 May 2018. It is expected that the dividend warrants and certificates for scrip shares allotted under the Scrip Dividend Scheme will be dispatched to shareholders on or about 22 June 2018.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 5 to 7 of this annual report.

SHARES AND SHARE OPTIONS

Details of the movements in the issued shares and share options of the Company during the Year, together with the reasons thereof, are set out in note 19 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company (the "Bye-Laws") or the Companies Act of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution to shareholders, comprising contributed surplus, retained earnings and other distributable reserves, amounted to approximately HK$2,213,377,000 (2016: HK$1,214,705,000). The share premium of the Company may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

Both the revenue attributable to the largest five customers combined and the purchases attributable to the largest five suppliers combined of the Group accounted for less than 30% of the Group's total revenue and purchases respectively for the Year.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group always strives to improve our customer service capability and standard. Taking into account its business features and market development trend, every member or business unit within our Group identifies its respective customers positioning and service strategies for building up its customer management mechanism. We gain an accurate and timely understanding of customers' latest condition and their demands through information management, personal visits and various other ways, in order to improve and upgrade our service quality, enhance customer service awareness and capability of our staff, and strengthen the enterprise core competitiveness.

The Group is committed to build a community of interest with our suppliers. We have established strategic co-operative relationship with many quality partners that is harmonious, mutually trusting and beneficial. Objective supplier management and evaluation mechanisms have also been set up to provide a reliable safeguard for the Company's business as well as to promote development of both the suppliers and the Company. At the same time, in respect of operation of logistic parks, ports, logistic services, toll roads, and other business, we strictly adhere to adopting a fair, impartial and transparent tender method for procurement, selecting the best options and performing contracts conscientiously in accordance with the laws to meet the working targets.

DIRECTORS

The directors of the Company (the "Directors") during the Year and up to the date of this report were:

Executive Directors:

Mr. Gao Lei *(Chairman)*
Mr. Li Hai Tao
Mr. Zhong Shan Qun
Mr. Liu Jun
Mr. Hu Wei (appointed on 17 May 2017)
Mr. Li Lu Ning (resigned on 17 May 2017)

Non-Executive Directors:

Mr. Xie Chu Dao (appointed on 17 May 2017)
Mr. Liu Xiao Dong (appointed on 23 August 2017)

Independent Non-Executive Directors:

Mr. Leung Ming Yuen, Simon
Mr. Ding Xun
Mr. Nip Yun Wing
Dr. Yim Fung (re-designated from the position of non-executive Director to independent non-executive Director on 17 May 2017)

In accordance with Bye-Law 100 of the Company's Bye-Laws (supplemented by Bye-Law 189(v) of the Bye-Laws), Mr. Hu Wei, Mr. Xie Chu Dao and Mr. Liu Xiao Dong will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors.

In accordance with Bye-Law 109(A) of the Company's Bye-Laws, Mr. Liu Jun, Mr. Leung Ming Yuen, Simon and Mr. Nip Yun Wing will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

None of the Directors or their respective connected entity (within the meaning of Companies (Directors' Report) Regulation (Cap. 622D)) had a material interest, whether directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, any of its subsidiaries, the holding company of the Company or any of its subsidiaries was a party subsisting during or at the end of the Year.

DIRECTORS' INTERESTS IN SECURITIES

The interests in securities of the Directors are separately disclosed in the section headed "**DISCLOSURE OF INTERESTS**" on pages 74 to 75 of this annual report. In addition, the interests of the Directors in the share options of the Company are disclosed in the section headed "**SHARE OPTION SCHEME**" below.

Save as disclosed in the sub-section headed "**DIRECTORS' INTERESTS IN SECURITIES**" under the section headed "**DISCLOSURE OF INTERESTS**" on pages 74 to 75 of this annual report and the section headed "**SHARE OPTION SCHEME**" as set out below, at no time during the year ended 31 December 2017 was the Company, any of its subsidiaries, the holding company of the Company or any of its subsidiaries a party to any arrangement to enable the Directors, chief executives, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

UPDATES OF OTHER INFORMATION OF DIRECTORS

Save as disclosed in the section headed "**DIRECTORS**" above, updates of other information of directors in accordance with rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are: (1) with effect from 22 August 2017, the basic monthly remuneration of Mr. Gao Lei and Mr. Li Hai Tao have been revised from HK$120,000 to HK$100,000; (2) with effect from 15 January 2018, the basic monthly remuneration of Mr. Zhong Shan Qun has been revised from HK$100,000 to HK$80,000; and (3) with effect from 1 June 2017, the basic monthly remuneration of Mr. Liu Jun has been revised from HK$100,000 to HK$80,000.

SHARE OPTION SCHEME

The Company had operated a share option scheme (the "Expired Scheme") for 10 years from 30 April 2004 to 29 April 2014. Upon the expiration of the Expired Scheme, the Company approved and adopted a new share option scheme (the "New Scheme") for 10 years with effect from 16 May 2014 at the annual general meeting held on 16 May 2014.

Both the Expired Scheme and the New Scheme aimed to reward, encourage and motivate the eligible participants who made contributions to the Group. Eligible participants of such schemes who are determined by the Board include (a) any full-time employee of the Group, (b) any director (including executive, non-executive or independent non-executive directors) of the Group, associates and joint ventures of the Group or (c) any substantial shareholder of the Company.

The following table lists the details of the outstanding share options which were granted under the Expired Scheme and the New Scheme and their movements during the Year (Note 1):

Name and category of participants	Date of grant of share options	Exercise period of share options	Exercise price of share options (Note 8) HK$	Number of unlisted share options (physically settled equity derivatives): As at 1 January 2017	Granted during the Year	Adjusted during the Year (Note 8)	Exercised during the Year	Cancelled/ lapsed during the Year	As at 31 December 2017	Share price of the Company (Note 9): As at the date of grant of share options HK$	As at the date of exercise of share options HK$
Directors											
Mr. Gao Lei	29 January 2014 *(Notes 4, 5)*	29 January 2016 to 28 January 2019	8.919	1,400,000	–	232,547	920,000	–	712,547	9.70	13.52
	26 May 2017 *(Notes 6, 7)*	26 May 2019 to 25 May 2022	12.628	–	1,270,000	–	–	–	1,270,000	12.56	N/A
Mr. Li Hai Tao	22 June 2016 *(Notes 4, 7)*	22 June 2016 to 28 January 2019	11.195	410,000	–	14,555	–	–	424,555	11.66	N/A
	26 May 2017 *(Notes 6, 7)*	26 May 2019 to 25 May 2022	12.628	–	1,210,000	–	–	–	1,210,000	12.56	N/A
Mr. Zhong Shan Qun	29 January 2014 *(Notes 4, 5)*	29 January 2016 to 28 January 2019	8.919	1,050,000	–	174,410	629,000	–	595,410	9.70	14.93
	26 May 2017 *(Notes 6, 7)*	26 May 2019 to 25 May 2022	12.628	–	950,000	–	–	–	950,000	12.56	N/A
Mr. Liu Jun	29 January 2014 *(Notes 4, 5)*	29 January 2016 to 28 January 2019	8.919	1,050,000	–	174,410	352,000	–	872,410	9.70	14.36
	26 May 2017 *(Notes 6, 7)*	26 May 2019 to 25 May 2022	12.628	–	950,000	–	–	–	950,000	12.56	N/A
Mr. Hu Wei *(Note 2)*	29 January 2014 *(Notes 4, 5)*	29 January 2016 to 28 January 2019	8.919	1,050,000	–	174,410	782,500	–	441,910	9.70	13.72
	26 May 2017 *(Notes 6, 7)*	26 May 2019 to 25 May 2022	12.628	–	950,000	–	–	–	950,000	12.56	N/A
Mr. Li Lu Ning *(Note 3)*	29 January 2014 *(Notes 4, 5)*	29 January 2016 to 28 January 2019	8.919	1,050,000	–	174,410	556,500	–	667,910	9.70	14.78
	26 May 2017 *(Notes 6, 7)*	26 May 2019 to 25 May 2022	12.628	–	950,000	–	–	–	950,000	12.56	N/A
				6,010,000	6,280,000	944,742	3,240,000	–	9,994,742		
Other employees											
In aggregate	29 January 2014 *(Notes 4, 5)*	29 January 2016 to 28 January 2019	8.919	23,578,000	–	3,594,172	11,422,097	1,744,949	14,005,126	9.70	13.94
	22 June 2016 *(Notes 4, 7)*	22 June 2016 to 28 January 2019	11.195	7,010,000	–	248,855	1,093,500	–	6,165,355	11.66	14.63
	26 May 2017 *(Notes 6, 7)*	26 May 2019 to 25 May 2022	12.628	–	28,490,000	–	–	–	28,490,000	12.56	N/A
				30,588,000	28,490,000	3,843,027	12,515,597	1,744,949	48,660,481		
				36,598,000	34,770,000	4,787,769	15,755,597	1,744,949	58,655,223		

Notes:

(1) *As the consolidation of every 10 shares of the Company with a nominal value of HK$0.10 each into 1 consolidated share of the Company with a nominal value of HK$1.00 each (the "Share Consolidation") became effective on 13 February 2014, the information regarding the share options granted under the Expired Scheme (including exercise price, number and share price of the Company) was disclosed on the basis of the information after the Share Consolidation became effective.*

(2) *Mr. Hu Wei was appointed as an executive director of the Company on 17 May 2017.*

(3) *Mr. Li Lu Ning has resigned as an executive director of the Company on 17 May 2017.*

(4) *All these share options granted have been vested on or before 29 January 2018.*

(5) *Granted under the Expired Scheme.*

(6) *40% of these share options granted will be vested on 26 May 2019; another 30% will be vested on 26 May 2020; and the remaining 30% will be vested on 26 May 2021. Vesting of the share options is conditional upon the achievement of certain performance targets by the individual grantees and the Group.*

(7) *Granted under the New Scheme.*

(8) *The exercise price of the share options was subject to adjustment in the event of rights or bonus issues or other similar changes in the Company's share capital. In view of the distribution of the final dividend and/or special dividend for the years ended 2013 to 2016 in scrip form, the Company made a retroactive adjustment/an adjustment to the exercise price and the number of the outstanding share options during the Year. As a result, the exercise price per share for share options granted on 29 January 2014 and 22 June 2016 was adjusted to HK$8.919 and HK$11.195 from HK$10.40 and HK$11.592, respectively, with effect from 23 June 2017.*

(9) *The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options. The share price of the Company disclosed as at the date of exercise of the share options was the weighted average closing price of the shares immediately before the date(s) on which the share options with the disclosure category were exercised.*

The Group is in compliance with the requirements as stipulated in Hong Kong Financial Reporting Standard 2 "Share-based Payment". During the Year, provisions amounting to HK$29,358,000 were made for the cost of share options granted by the Company, and was already recognised in the consolidated income statement. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which lapse or are cancelled prior to the expiration of their exercise date are deleted from the register of outstanding share options.

Details of the model and significant assumptions used to estimate the fair value of the share options granted by the Company to eligible participants during the Year are set out in note 19 to the consolidated financial statements. Such option pricing model requires input of subjective assumptions. Any changes in the subjective input assumptions may materially affect the estimation of the fair value of the share options.

The total number of shares of the Company available for issue under the New Scheme is 165,905,769 shares which represent approximately 8% of the issued shares of the Company as at the date of this annual report.

Under both the Expired Scheme and the New Scheme, the total number of shares of the Company issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Further, where any further grant of share options to an eligible participant would result in the shares of the Company issued and to be issued upon exercise of all share options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares of the Company in issue, such further grant must be separately approved by the shareholders of the Company in general meeting.

Under both the Expired Scheme and the New Scheme, an offer of a grant of share options may be accepted within 7 days from the respective date of the offer with a cash consideration of HK$1 payable by the grantee to the Company. The period for the exercise of a share option granted under both schemes is determined by the Board, but in any event such period shall not go beyond 5 years from the date of offer.

Under both the Expired Scheme and the New Scheme, the subscription price is solely determined by the Board and shall be at least the higher of: (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

The interests in shares of the Company held by substantial shareholders of the Company are separately disclosed in the section headed "**DISCLOSURE OF INTERESTS**" on pages 74 to 75 of this annual report.

PERMITTED INDEMNITY PROVISIONS

During the Year and up to the date of this annual report, the Company has in force permitted indemnity provisions which are provided for in the Company's Bye-Laws and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against the Directors and the directors of the Group respectively.

ISSUANCE OF SENIOR PERPETUAL CAPITAL SECURITIES

During the Year, the Company issued US$300 million of senior perpetual capital securities which is listed on the Stock Exchange with a coupon rate of 3.95% per annum. The issue was made for the purposes of investing in integrated logistics hub, repaying certain of the Company's existing debt obligations and general working capital purposes. Net proceeds from issuance of the securities was approximately US$298,700,000.

RELATED PARTY TRANSACTIONS, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

(1) Related party transactions

Details of significant related party transactions of the Group (which do not constitute connected transactions and continuing connected transactions under the Listing Rules) are set out in note 39 to the consolidated financial statements.

(2) Connected transactions

(i) On 13 July 2017, Shenzhen Expressway Company Limited, a subsidiary in which the Company held approximately 51% interest ("Shenzhen Expressway") and the other investors entered into a capital injection agreement ("Capital Injection Agreement") with Shenzhen Investment Holdings Company Limited, the controlling shareholder of the Company ("SIHCL") and its then wholly-owned subsidiary, Shenzhen Water Planning & Design Institute Company Limited ("Water Planning Company"). Pursuant to the Capital Injection Agreement, Shenzhen Expressway agreed to inject RMB61,890,000 into Water Planning Company in return for 15% registered capital in Water Planning Company upon completion of the capital injection.

As at the date of signing of the Capital Injection Agreement, both SIHCL and Water Planning Company were connected persons of the Company and Shenzhen Expressway. Accordingly, the transaction under the Capital Injection Agreement constituted a connected transaction of the Group under Chapter 14A of the Listing Rules. For further information on the transaction, please refer to the joint announcement of the Company and Shenzhen Expressway dated 13 July 2017.

(ii) On 11 December 2017, Shenzhen Expressway, SIHCL and its then wholly-owned subsidiary Shenzhen Guangshen Coastal Expressway Investment Company Limited ("Coastal Company") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which Shenzhen Expressway acquired 100% equity interest in Coastal Company at a consideration of RMB1,472 million.

As at the date of signing of the Acquisition Agreement, both SIHCL and Coastal Company were connected persons of the Company and Shenzhen Expressway. Accordingly, the transaction under the Acquisition Agreement constituted a connected transaction of the Group under Chapter 14A of the Listing Rules. For further information on the transaction, please refer to the joint announcement of the Company and Shenzhen Expressway dated 11 December 2017, the circular of the Company dated 19 January 2018 and the announcement of the Company dated 5 February 2018.

(3) Continuing connected transactions

On 30 December 2016, Shenzhen Expressway and Coastal Company entered into an entrustment agreement ("Entrustment Agreement") pursuant to which Coastal Company shall entrust the management and maintenance of the highway assets and related ancillary facilities and the operation of toll collection of the phase I project of Guangshen Coastal Expressway Shenzhen Section ("Coastal Expressway Phase I") to Shenzhen Expressway during the period from 1 January 2017 to 31 December 2019, whereby Shenzhen Expressway shall exercise and perform on behalf of Coastal Company such rights and obligations as are relevant to the operation and management of Coastal Expressway Phase I for service fees of RMB18 million per annum.

Having entered into the Acquisition Agreement referred to in section headed "Connected Transactions" above, Coastal Company has paid RMB15 million as the service fee up to 31 October 2017 (the base date of the acquisition) to Shenzhen Expressway in accordance with the agreement and the Entrustment Agreement was terminated.

As at the date of the Entrustment Agreement, both SIHCL and Coastal Company were connected persons of the Company and Shenzhen Expressway. Accordingly, the transaction under the Entrustment Agreement constituted a continuing connected transaction of the Group ("Continuing Connected Transaction") under Chapter 14A of the Listing Rules. For further details of the Continuing Connected Transaction, please refer to the joint announcement of the Company and Shenzhen Expressway dated 30 December 2016.

The independent non-executive directors of the Company conducted an annual review on the Continuing Connected Transaction, and confirmed that the Entrustment Agreement and the transaction thereunder has been carried out on normal commercial terms in the ordinary and usual course of business of the Group for the Year, and has been proceeded during the reporting period in accordance with the Entrustment Agreement, the terms of which are fair and reasonable and in the interests of the Company and its shareholders as a whole. The Company's auditor has conducted an annual review on the Continuing Connected Transaction under the requirements of the Listing Rules and has issued a letter regarding the matters described in rule 14A.56 of the Listing Rules.

(4) Others

The Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules in relation to the connected transactions and continuing connected transactions carried out during the Year and up to the date of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group regularly monitors and gathers information on amendments in laws, regulations and rules relevant to the Group's business, strengthens the legal trainings to staff, further deepens the mechanisms for the prevention of legal risks and promotes an in-depth integration of legal management and operation management to ensure the Group's observance of those applicable laws, rules and regulations (in particular those) which may have material impact on the Group and to prevent and control legal risks.

The Group commences various business projects in strict accordance with laws and regulations. The Group's logistic business and toll road business are conducted in compliance with regulations including《土地管理法》(Land Administration Law), 《城鄉規劃法》(Urban and Rural Planning Law) and《收費公路管理條例》(Regulations on Administration of Toll Roads). The Group's logistic financing business also obtained the licence granted by the government and its daily operation also strictly complies with 《公司法》(Company Law), 《合同法》(Contract Law), 《融資租賃企業監督管理辦法》(Administrative Measures for the Supervision of Financial Leasing Enterprises),《私募投資基金監督管理暫行辦法》(Interim Measures for the Supervision and Administration of Privately Offered Investment Funds) and other relevant state laws and regulations.

POST BALANCE SHEET EVENTS

Details of events after the balance sheet date of the Group are set out in note 42 to the consolidated financial statements.

DONATIONS

During the Year, the Group made charitable and other donations amounted to approximately HK$4,525,000.

ENVIRONMENTAL PROTECTION

The Group has always put a great emphasis on environmental protection and actively carried out construction of ecological civilization. The Group as a whole has established the concept of ecological civilization for respecting the nature, conforming to nature and protecting the nature and continuously enhancing awareness of construction of enterprise ecological civilization. Combining the Company's business structure and by means of planning and construction innovation, operation management innovation as well as technological innovation, the Company has commenced concrete tasks such as green construction, sponge city, assembling buildings, recycling construction wastes, multimodal transport and green supply chain management, striving to build "Green Parks, Green Logistics and Green Expressways".

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the "**CORPORATE GOVERNANCE REPORT**" on pages 57 to 73 of this annual report.

AUDITOR

The financial statements for the Year have been audited by KPMG, and the financial statements for the two years ended 31 December 2015 and 2016 were audited by PricewaterhouseCoopers and KPMG respectively.

KPMG will retire and a resolution for their re-appointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Gao Lei
Chairman

Hong Kong, 27 March 2018

The Company believes that sound corporate governance goes beyond merely meeting the basic requirements of the regulatory authorities for listed companies' operation. More importantly, sound corporate governance can fulfill the Company's internal development needs. Several governance guidelines and procedures have been established by the Company over the years, including "Constitution of the Board of Directors", "Terms of reference of Executive Board Committee" and "Rules Governing Information Disclosure", with an aim of defining the duties, scope of authority and standards of conduct clearly, thereby enhancing corporate governance standards, which are to be continuously reviewed and improved through implementation. In 2017, the Group conducted comprehensive review on its existing policies, updated and optimized such policies where necessary. Moreover, various new policies were formulated during the year, which further improved the corporate governance structure of the Company for regulatory requirements.

For the year ended 31 December 2017 (the "Year"), the Company has complied with the code provisions set out in "Corporate Governance Code and Corporate Governance Report", Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company has always aimed to enhance its corporate governance practices, thereby promoting the Company's sustainable development and enhancing value for the shareholders of the Company (the "Shareholders"). A summary of the corporate governance practices adopted by the Group are set out as below:

THE BOARD

Composition of the Board

As at the date of this report, the board of directors of the Company (the "Board") consists of eleven directors, including five executive directors: Messrs. Gao Lei, Li Hai Tao, Zhong Shan Qun, Liu Jun and Hu Wei (appointed on 17 May 2017); two non-executive directors: Messrs. Xie Chu Dao (appointed on 17 May 2017) and Liu Xiao Dong (appointed on 23 August 2017); and four independent non-executive directors: Messrs. Leung Ming Yuen, Simon, Ding Xun, Nip Yun Wing and Dr. Yim Fung (formerly a non-executive director, and has been re-designated as an independent non-executive director on 17 May 2017). The independent non-executive directors represented at least one-third of the Board throughout the Year as required under the Listing Rules.

The Company comprises directors with professional background and/or extensive expertise in the Group's business and experience in corporate management. They complement each other with regard to their expertise.

Biographical details of the directors of the Company are set out in the section headed "Biographies of Directors and Senior Management" on pages 42 to 48 of this annual report.

The Chairman and the Chief Executive Officer

The Chairman and the Chief Executive Officer of the Company are two distinct and separate positions, which are held by Mr. Gao Lei and Mr. Li Hai Tao respectively, who are both executive directors of the Company. The Chairman is responsible for the effective running of the Board whereas the Chief Executive Officer is responsible for day-to-day operation of the Group's business. Their respective responsibilities have been clearly established and set out in written form as "The Roles of the Chairman and Chief Executive Officer" of the Company.

Independent non-executive directors

The independent non-executive directors of the Company are all professionals with extensive experience in finance, financial affairs and corporate management. They can evaluate the holistic development of the Group more objectively when making decisions, and perform monitoring functions.

The Board has received from each independent non-executive director a written annual confirmation of their independence and the Company considers that all independent non-executive directors are independent pursuant to the requirements as set out in the Listing Rules.

Change in Board member during the Year

Changes of Board members during the Year are as follows:

- Mr. Li Lu Ning resigned as an executive director on 17 May 2017;
- Mr. Hu Wei was appointed as an executive director on 17 May 2017;
- Mr. Xie Chu Dao was appointed as a non-executive director on 17 May 2017;
- Dr. Yim Fung, formerly a non-executive director, has been re-designated as an independent non-executive director on 17 May 2017; and
- Mr. Liu Xiao Dong was appointed as a non-executive director on 23 August 2017.

Appointment of directors

Each director of the Company (including the non-executive directors) has entered into a service contract with the Company for a term of three years and is subject to retirement by rotation but is eligible for re-election at the annual general meeting in accordance with the bye-laws of the Company. None of the directors of the Company proposed for re-election at the forthcoming annual general meeting 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.

The Company's bye-laws have specified that all new directors of the Company appointed during the year to fill a casual vacancy or as an addition to the Board are subject to re-election by Shareholders at the first annual general meeting after appointments. Each director shall be subject to retirement by rotation at least once every three years pursuant to the Company's bye-laws. After the annual general meeting of the Company (the "AGM") held in 2017, Mr. Hu Wei has been appointed as an executive director of the Company, and Mr. Xie Chu Dao and Mr. Liu Xiao Dong have been appointed as non-executive directors of the Company, and they will stand for election by the Shareholders at the AGM to be held on 16 May 2018.

The Board considers that its diversity is vital to the business development of the Company. The Board adopted a Board Diversity Policy in 2013 for better transparency and governance.

The Company has had due regard for the benefits of diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, before any Board appointment, and candidates are considered against objective criteria.

Role and responsibilities of the Board

The Board is responsible for leading the Group's development, establishing the Group's strategic goals, and ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. The principal duties of the Board are to manage and decide on the Group's development strategies, management structures, investment and funding, financial control, human resources, and so forth. Significant matters of the Group are required to be approved by the Board, including (but not limited to) the following:

- formulating the Company's corporate development plans;
- formulating the Company's operational and management strategies;
- approving financial statements;
- approving notifiable transactions and connected transactions of the Group as required under the Listing Rules;
- formulating and approving internal control and risk management systems; and
- distributing dividends.

BOARD MEETINGS AND PROCEDURES

The Board meets regularly and holds at least four meetings a year at approximately quarterly interval. The Company will convene Board meetings to discuss and consider all contemplated significant transactions, connected transactions or notifiable transactions as required under the Listing Rules so as to give all directors of the Company an opportunity to attend in person and provide their comments before the Group proceeds with the same. If a substantial shareholder or a director has a conflict of interest in a material matter, a Board meeting shall be held and the interested director(s) shall abstain from voting.

In 2017, a total of nine Board meetings were held. Notice of at least fourteen days were given for regular Board meetings and notice of at least seven days were given for non-regular meetings. To ensure all directors of the Company are given opportunities to make suggestions on agenda items to be discussed at the Board meetings, all draft agendas for regular Board meetings are provided to all directors for their comment prior to the meetings. The Chairman and non-executive directors (including the independent non-executive directors) meet at least once every year without the presence of executive directors and the management. Such meeting was held in November 2017.

The following major items were addressed at the Board meetings held in 2017:

- approving and considering the 2016 annual results and the payment of dividends;
- approving the 2017 interim results;
- reviewing the results and business operations of the first and third quarters of 2017;
- approving a disclosable transaction in relation to the acquisition of 100% interest in the project company of Yichang Expressway by the Group;
- approving a connected transaction in relation to the participation of the Group in capital injection of Shenzhen Water Planning & Design Institute Company Limited;
- approving a disclosable transaction in relation to the acquisition of 20% interest in Chongqing Derun Environment Company Limited by the Group;
- approving the appointment of Mr. Hu Wei as an executive director of the Company;
- approving the appointment of Mr. Xie Chu Dao and Mr. Liu Xiao Dong as non-executive directors of the Company and the entering into of service contracts with Mr. Xie and Mr. Liu, respectively;
- approving the re-designation of Dr. Yim Fung as an independent non-executive director from a non-executive director and the entering into of a new service contract with Dr. Yim;
- approving the entering into of new service contracts with three independent non-executive directors of the Company;
- approving the five-year strategic plan of the Group;
- approving the proposed issuance of convertible bonds by Shenzhen Expressway Company Limited;
- approving the amendments to (i) Terms of reference of the Audit Committee, (ii) Terms of reference of Executive Board Committee, (iii) The Roles of the Chairman and Chief Executive Officer, (iv) Constitution of the Board of Directors and (v) Shareholders Communication Policy; and
- approving a discloseable and connected transaction in relation to the acquisition of 100% equity interest in Shenzhen Guangshen Coastal Expressway Investment Company Limited by the Group.

TRAINING AND DEVELOPMENT OF DIRECTORS

The Company has prepared "An Induction for Newly Appointed Directors" for every newly appointed director to provide them with relevant materials and documents to ensure his/her proper understanding of director's duties and responsibilities and operations of the Company. The Company Secretary is responsible for updating all directors in relation to the latest information on the Listing Rules and other statutory requirements.

During the Year, all directors of the Company have participated in continuous professional development by attending seminars or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company Secretary.

	Topics on training covered		
Directors	**Corporate governance**	**regulatory**	**industry-specific**
Mr. Gao Lei	√	√	√
Mr. Li Hai Tao	√	√	√
Mr. Zhong Shan Qun	√	√	√
Mr. Liu Jun	√	√	√
Mr. Hu Wei	√	√	√
Mr. Xie Chu Dao	√	√	
Mr. Liu Xiao Dong	√	√	√
Mr. Leung Ming Yuen, Simon	√	√	
Mr. Ding Xun	√	√	√
Mr. Nip Yun Wing	√	√	
Dr. Yim Fung	√	√	

Specialised Committees of the Board

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established three specialised committees, namely the Audit Committee, Nomination Committee and Remuneration and Appraisal Committee. Such Board committees have designated terms of reference and duties, shall review and monitor matters in such designated areas of the Company and make recommendations to the Board. Each Board committee has its terms of reference which have been approved by the Board.

The terms of reference of all specialised committees specify that upon reasonable requests, the Board committees may seek independent professional advice to properly discharge their responsibilities to the Company. The costs of which shall be borne by the Company.

A summary of the responsibilities of and the work performed by each Board committee during 2017 are set out below:

Audit Committee (established in 1995)

The Audit Committee consists of three independent non-executive directors of the Company, namely Mr. Leung Ming Yuen, Simon (Chairman), Mr. Ding Xun and Mr. Nip Yun Wing.

Responsibilities and work performed in 2017

Under the terms of reference of the Audit Committee, the main duties of the Audit Committee include the following:

- to make recommendation to the Board on the appointment and removal of the auditor of the Company, and to approve the remuneration and terms of engagement of the auditor, and to deal with any matters in connection with the resignation or dismissal of the auditor;
- to monitor the completeness of financial statements of the Company and to review significant opinions on financial reporting contained in the financial statements and reports;
- to review the Group's financial control, risk management and internal control systems and to review the Group's representations on risk management and internal control systems contained in the annual report;

- to discuss with the management on the risk management and internal control system and to ensure that the management has discharged its duty to establish an effective internal control system, to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting functions, and the adequacy of trainings received by the staff and related budgets; and
- to review confidential arrangements which employees can raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee is to ensure proper arrangements are in place for the fair and independent investigation into such concerns and appropriate follow up actions.

The Audit Committee held 3 meetings during 2017 and the following major issues were reviewed and discussed at the meetings:

- reviewing the annual results for 2016 and the interim results for 2017, and confirmed the related disclosures in the financial statements were complete, accurate and fair and recommended the same to the Board for approval;
- approving the auditor's fees for the audit of 2016 annual financial statements and fees for the review of 2017 interim financial statements;
- considering the recommendation on the re-appointment of the auditor for 2017;
- reviewing the amendment to the terms of reference of the Audit Committee and presented it to the Board for approval;
- reviewing the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions and their training programme and related budget; and
- to review with the management and relevant departments on the effectiveness of the Group's risk management and internal control system of last year.

During the Year, the Audit Committee met the auditor of the Company twice in the absence of the management.

Nomination Committee (established in December 2003)

The Nomination Committee consists of two independent non-executive directors and one executive director of the Company, namely Mr. Ding Xun (Chairman), Mr. Leung Ming Yuen, Simon and Mr. Zhong Shan Qun.

Responsibilities and work performed in 2017

Under the terms of reference of the Nomination Committee, the main duties of the Nomination Committee include the following:

- to identify and recommend to the Board individuals eligible for the appointment of a director of the Company;
- to assess the qualification and experience of candidates for directors and the independence of independent non-executive directors of the Company and advise the Board thereon;
- to assess qualification and experience of the directors who are subject to retirement by rotation and reelection at each annual general meeting and advise the Board thereon;
- to review annually the structure, size and composition (including the skills, knowledge and experience) of the Board; and
- to review the Board Diversity Policy, as appropriate, including any measurable objectives that it has set for implementing the Board Diversity Policy and the progress on achieving these objectives.

The Nomination Committee held 3 meetings during 2017, the following major issues were reviewed and discussed during the Year:

- evaluating and making recommendation to the Board on the appointment of Mr. Hu Wei as an executive director of the Company;
- evaluating and making recommendation to the Board on the appointment of Mr. Xie Chu Dao and Mr. Liu Xiao Dong as the non-executive directors of the Company; and the re-designation of Dr. Yim Fung as an independent non-executive director;
- reviewing and confirming the independence of the 3 independent non-executive directors;
- reviewing the structure, composition and diversity of the Board; and
- evaluating and making recommendation as to the performance of the directors of the Company who were subject to retirement or retirement by rotation and re-election at the 2017 AGM.

Regarding the nomination of candidates as directors of the Company, the Nomination Committee would consider a number of factors including gender, age, length of service, professional qualification and experience. The Nomination Committee will also assess the merits and contribution of any candidate nominated to be a director and against the objective criteria, with due regard for the benefits of diversity on the Board that would complement the existing Board.

Remuneration and Appraisal Committee (established in December 2003)

The Remuneration and Appraisal Committee consists of two independent non-executive directors and one executive director of the Company, namely Mr. Ding Xun (Chairman), Mr. Leung Ming Yuen, Simon and Mr. Gao Lei.

Responsibilities and work performed in 2017

Under the terms of reference of the Remuneration and Appraisal Committee, the main duties of the Remuneration and Appraisal Committee include the following:

- to determine the level, policy and structure of remuneration of directors and senior management of the Company, and to establish a formal and transparent procedure for formulating policy on such remuneration;
- to review and approve performance-based remuneration by reference to corporate goals and objects resolved by the Board from time to time;
- to review and make recommendations to the Board in respect of the remuneration level of individual directors and senior management, and to ensure that no director or senior management or any of their associates is involved in the decision of his/her own remuneration; and
- to determine the remuneration packages of all executive directors and senior management of the Company, including benefits in kind, pension fund and compensation payments (including any compensation payable for loss or termination of their office or appointment).

The emoluments payable to executive directors of the Company are determined by reference to their experience and duties with the Company and the fees payable to non-executive directors are determined by reference to the estimated amount of time spent by them on the Company's matters. The Remuneration and Appraisal Committee determines the remuneration packages of each individual executive director and senior management, including benefits in kind, pension entitlements and compensation payments. The Remuneration and Appraisal Committee consulted the Chief Executive Officer about proposals relating to the remuneration packages of executive directors and senior management.

The Remuneration and Appraisal Committee held 4 meetings during 2017, the following major issues were reviewed and discussed during the Year:

- evaluating the performance of executive directors and senior management;
- approving bonus payments for 2016 to the senior management;
- approving the entering into of the service contract with the newly-appointed executive director of the Company;
- considering the entering into of the service contracts with the non-executive directors and the re-designated independent non-executive director of the Company;
- approving the renewal of the service contract with an executive director of the Company and the amendments to the terms of the service contracts entered into with three executive directors of the Company; and
- considering the granting of share options of the Company to executive directors and senior management.

Pursuant to paragraph B.1.5 of the Corporate Governance Code, the remuneration of the members of the senior management for the Year by band is set out below:

Remuneration band	**Number of individuals**
HK$1,000,001–HK$2,000,000	3
HK$2,000,001–HK$3,000,000	2
HK$4,000,001–HK$5,000,000	1

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 30 to the financial statements.

The attendance records of the Board meetings, Committee meetings and general meetings of the Company held in 2017

Details of the directors' attendance at the Board meetings, Committee meetings and general meetings of the Company held in 2017 are set out in the following table:

	Number of Meetings Attended/Number of Meetings Held					
Directors	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration and Appraisal Committee**	**Executive Board Committee**	**2017 AGM**
Executive directors						
Mr. Gao Lei *(Chairman)*	**8**/9	N/A	N/A	**4**/4	**21**/22	√
Mr. Li Hai Tao	**7**/9	N/A	N/A	N/A	**22**/22	√
Mr. Zhong Shan Qun	**8**/9	N/A	**3**/3	N/A	**20**/22	√
Mr. Liu Jun	**7**/9	N/A	N/A	N/A	**19**/22	√
Mr. Hu Wei(1)	**5**/5	N/A	N/A	N/A	**12**/14	N/A
Mr. Li Lu Ning(2)	**3**/4	N/A	N/A	N/A	**8**/8	X
Non-executive directors						
Mr. Xie Chu Dao(3)	**4**/5	N/A	N/A	N/A	N/A	N/A
Mr. Liu Xiao Dong(4)	**3**/3	N/A	N/A	N/A	N/A	N/A
Independent Non-executive directors						
Mr. Leung Ming Yuen, Simon	**9**/9	**3**/3	**3**/3	**4**/4	N/A	√
Mr. Ding Xun	**9**/9	**3**/3	**3**/3	**4**/4	N/A	√
Mr. Nip Yun Wing	**9**/9	**2**/3	N/A	N/A	N/A	√
Dr. Yim Fung (5)	**9**/9	N/A	N/A	N/A	N/A	√

Notes:

(1) Mr. Hu Wei was appointed as an executive director of the Company on 17 May 2017

(2) Mr. Li Lu Ning resigned as executive director of the Company on 17 May 2017

(3) Mr. Xie Chu Dao was appointed as a non-executive director of the Company on 17 May 2017

(4) Mr. Liu Xiao Dong was appointed as a non-executive director of the Company on 23 August 2017

(5) Dr. Yim Fung was re-designated as an independent non-executive director from a non-executive director on 17 May 2017

Directors are expected to devote sufficient time and attention to performing their duties and discharging their responsibilities towards the Group. During the Year, the high attendance rate of the Board and its committee meetings demonstrates the directors' strong commitment to the Company.

SUPPLY OF AND ACCESS TO INFORMATION

Agendas of all Board meetings and the accompanying Board papers are sent to all directors in a timely manner and at least seven days before the intended date of the meetings.

The management of the Company supplies the Board and its specialised committees with adequate, complete and reliable information in a timely manner to enable directors of the Company to make informed decisions. The Board and each director of the Company have separate and independent access to the Company's senior management.

To enhance communication, the Company has established an online intranet system for the directors of the Company and the members of all specialised committees under the Board to have access to meeting materials and documents of the Board and related committees.

The Board is provided with the Group's monthly management report which gives a balanced and understandable assessment of the Group's performance, position and prospects in sufficient details to keep the Board abreast of the Group's affairs and facilitate directors to discharge their duties under the Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board adopted a code of conduct (the "Code of Conduct") in respect of securities transactions of the Company by directors and relevant employees of the Group on terms more stringent than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Listing Rules. Relevant employees include any employees of the Company or directors or employees of subsidiaries of the Company who, as a result of their office or employment, are likely to be in possession of inside information in relation to the Group.

The Company, having made specific enquiry to all directors of the Company, confirms that all directors of the Company have complied with the standards set out in the Model Code and the Code of Conduct at all times throughout the Year.

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Board, directors and certain members of the senior management of the Company. Purchase of liability insurance for the directors of the Company can enhance the Company's ability to reduce exposure to risks. The insurance coverage is reviewed on an annual basis.

DIVISION OF AUTHORITY BETWEEN THE BOARD AND THE MANAGEMENT

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group and the Board delegates its management and administration functions to the management. The Board established the Executive Board Committee to manage and monitor, on behalf of the Board, the day-to-day operations of the Group and to implement all decisions made by the Board as well as to oversee corporate governance matters of the Group.

Executive Board Committee

Members of the Executive Board Committee are appointed by the Board. The Committee consists of five executive directors, namely Mr. Gao Lei, Mr. Li Hai Tao, Mr. Zhong Shan Qun, Mr. Liu Jun and Mr. Hu Wei.

Responsibilities and works performed in 2017

The duties and authorities of the Executive Board Committee are set out in its written terms of reference, which mainly include:

(1) to monitor all business operations of the Group;

(2) to prepare and approve the Group's business plans and annual budget;

(3) to deal with the ordinary business of the Group and to authorise the Chief Executive Officer to lead the management for the day-to-day operations of the Group, and to authorise individual executive directors of the Company to deal with the daily operation of various businesses of the Group;

(4) to consider and review notifiable transactions of the Group as required under the Listing Rules and advise the Board thereon;

(5) to provide information and reports of the Group upon requests by the Audit Committee, to attend and to procure the management staff of the Group and professional advisors to attend the Audit Committee meetings, and to answer questions raised by the Audit Committee at such meetings;

(6) to arrange appointment of professional advisors and institutions to provide assistance and advices for specialised committees under the Board;

(7) to develop and review the Company's policies and practices on corporate governance;

(8) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors;

(9) to review and monitor the training and continuous professional development of the directors and senior management of the Company;

(10) to review the Company's compliance with the Corporate Governance Code and its disclosure in the Corporate Governance Report contained in the Company's annual report; and

(11) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.

The Executive Board Committee reports its decisions and recommendations to the Board in a timely manner, and the minutes of the Committee meetings in relation to material matters and decisions are circulated to members of the Board within reasonable time after the meetings.

In 2017, the Executive Board Committee considered and discussed major matters including: discussing and considering the Company's 2016 annual results and dividend proposal, 2017 interim and quarterly results and business development, budgets for the year 2017, connected transactions and notifiable transactions, policies adoption and amendments as well as discussing the grant of the Company's share options to eligible participants, issuance of bonds proposal and the plans for bank financing, etc.; and discussing the business development plans, capital expenditures and loans, and changes in the senior management of the Company's subsidiaries.

FINANCIAL REPORTING

The directors of the Company acknowledge their responsibility for preparing financial statements that give a true and fair view of the financial position, results and cash flow of the Group. In preparing the financial statements for the year ended 31 December 2017, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable and has prepared the financial statements on a going concern basis. For details of the basis of preparation of the financial statements, please refer to Note 2.1 to the consolidated financial statements in this report.

The Board and the Audit Committee conducted an annual review on the adequacy of financial reporting resources and ensured that the Group's accounting, internal audit and financial reporting functions had adequate resources, the staff of which had sufficient qualifications and experience, and their training programmes and related budget were also adequate.

The reporting responsibilities of the directors and the external auditor are further set out in the Independent Auditor's Report in this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

The duties of the Board are to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems. The management is responsible for designing and implementing risk management and internal control systems. The relevant systems are designed to identify and manage the risks that may adversely affect the achievement of the Group's business objectives, but they do not provide absolute assurance against material misstatement, errors, losses, fraud or non-compliance.

By working out an overall strategy on corporate development, the Group leads and supports its subsidiaries to achieve corporate development in accordance with the Group's strategic plans. The Group achieves sustainable development through good and regulated management by adjusting, improving and enhancing its subsidiaries' mode of internal management.

As a holding company, the Company has been implementing effective management over its subsidiaries. In order to further establish the management and control procedures in relation to the strategic compilation and implementation, operational planning, budgeting, performance assessment, investment management as well as changes in equity of the subsidiaries, the Company formulated the "Guidelines for Group Management and Control" in 2012. In 2013, the Company improved the management and control models over its subsidiaries, and adopted the "strategic design", "strategic management and control", and "strategic control with some functions focused on strategic design" for listed toll road company, logistics (other than logistics development) and logistics development businesses, respectively, subject to their level of decentralisation. In addition, the Company improved the corporate governance structure for its subsidiaries.

According to the Group's development strategy, the Group focused on developing its logistic and toll road businesses. In 2012, the Group set the direction for the strategic development of "China Urban Integrated Logistics Hub", and organised its implementation. With the construction of "China Urban Integrated Logistics Hub" projects and gradual development of the Group's new business and financial business, in 2017, the Group conducted an audit along the entire construction process and implemented specialized risk prevention and control over the new business, newly-incorporated companies and financial sector business. In 2018, the Group will continue to place emphasis on financial business by regulating the links and fields with concentrated risk in the financial business and preventing operation and compliance risks.

Corporate Internal Risk Management and Control Model

In order to further strengthen its risk control and enhance its internal audit independence, in early 2017, the Group adjusted the functions of the risk management department by incorporating investment review and intermediary agency management functions into the risk management department. The risk management department is responsible for establishing and improving the Group's comprehensive risk management system and internal legal management system, assessing internal control operation, managing the commission of intermediary agencies, considering and reviewing the investment projects and merger and acquisition projects. Meanwhile, the Company separated the audit function and post-investment evaluation tracking of investment projects from the original risk management department, set up the audit department which is in charge of establishing and improving the Group's internal audit system, carried out various audit work for the Group and its subsidiaries independently, and followed up on the implementation of the audit rectification.

Function Positioning of Headquarters of the Group

Based on the respective industry characteristics, maturity levels of business and corporate development stages of its subsidiaries, the Group confirmed the headquarters' core functions as investment, financing, decision making and back-office support.

Management Control

Based on the needs of its strategic management control model, the Group has ensured that its subsidiaries has carried out material operating activities in accordance with the Group's strategic plans and objectives by controlling, supporting and guiding important economic activities of its subsidiaries through budget management, performance appraisal, investment management, capital management, construction management, remuneration management, assets and equity structure, human resources and information management, thereby ensuring an effective implementation of the Group's strategic plans.

Systems Build-up

Based on the contents of the management control model, the Group has supplemented and improved its control procedures and established clearly defined policies and procedures. With such policies, the Group has set up a strict authorisation system and a rationalised operation workflow to ensure that various operating activities are properly authorised; to safeguard the Company's assets and the interests of Shareholders; and to continuously enhance implementation efficiency through a regime on system amendment and improvement.

Risk Management

The Company constantly improves its internal control and risk management system based on the control environment, financial control, operational control, compliance control, and risk management to set up a comprehensive risk management system with a focus on risk identification, risk assessment and risk prevention. The organisation structure of the Company's risk management comprises the Board, the Audit Committee, the management of the Company, risk management department, audit department and risk coordinators at other departments.

The Company performs risk assessment and prepares a risk management report quarterly and annually in accordance with the "Comprehensive Risk Management Regulations" adopted by the Company. To address the potential risks, procedures for major risk management are in place through thorough identification as well as careful evaluation of the risks and the determination of a corresponding strategy. The risk management department oversees material risks of the Group on an ongoing basis. It prepares an internal control and risk management system assessment report for the Company annually.

The Board requires the management to review the implementation of internal control and risk management at the end of each year. Through a comprehensive assessment of the Company and its subsidiaries conducted by the risk management department on an ongoing basis, the management will determine whether the internal control and risk management systems are able to meet the expected objectives, and will make recommendations for improving any control deficiency in the systems and follow up on the rectification.

The Company believes that the implementation of such internal control and risk management measures can effectively manage any material risks the Group may face and mitigate the impact of risky incidents on the Group, thereby protecting Shareholders' investment and the Company's assets and attaining the long-term strategic objectives of the Company.

The Company has a whistle-blowing policy to allow the employees of the Group to raise confidential concerns about the possible misconduct in financial reporting, internal control or other matters.

In addition, in order to identify, process and issue inside information, the Group has also implemented procedures, including pre-approving the Group's security transactions to be conducted by the designated management members, informing the relevant directors and employees of the relevant conventional blackout period and security transaction restriction, identifying projects with code names for preventing the Group from possible mishandling inside information.

The Board has comprehensively reviewed the Group's internal control and risk management systems and their effectiveness for 2017 and found that the implementation thereof progressed well and that there were no significant control failures or weaknesses. The Board considers that the relevant systems are effective and sufficient to enable the Group to achieve its operation and governance objectives. The Board will continue to urge the management of the Company to enhance the internal control and risk management systems in order to ensure an effective operation of the systems.

Functions of Risk Management Department

In 2017, the Company separated the audit function and post-investment tracking of investment projects from the risk management department and incorporated the review of investment projects and intermediary agency management into the functions of the risk management department.

The risk management department of the Company has the following main functions:

- internal control and risk management
- investment projects review
- oversight of asset valuation
- management of intermediary agencies
- oversight of legal affairs

Staff of the risk management department shall participate in various training courses every year in accordance with the stated schedule and the Company's needs in order to enhance their theoretical and practical professional knowledge. Such training courses include internal control and risk prevention training, training on investment, professional training on legal matters, and equity management and asset evaluation training, etc.

The risk management department completed a review and analysis over the Group's potential risks and formulated the corresponding measures.

Risk	Description	Responding measures
Policy risk on toll roads	• The amendment to the "Regulations on Administration of Toll Roads《收費公路管理條例》" is yet to be finalised, the Group's toll revenue may be affected by such policy adjustment.	• Keep monitoring the amendment to the "Regulations on Administration of Toll Roads《收費公路管理條例》".
Capital and financing risk	• As substantial amounts of capital are required for investment projects and contribution from the projects at the initial construction period and the preliminary stage of its operation period is limited, the Group may face investment and financing risks.	• Formulate well-devised capital planning and design plans for raising capital and financing. • Gain a better understanding of the financial market and credit policy and conduct research at new financial products and methods. • Enhance management of credit facilities and good credit standing of the Company by maintaining close cooperation and communication with banks.
Investment risks	• As the scale of Company's investment in integrated logistics hub grows, the number of project has increased, and the period of market cultivation is long. • Loss and disputes may arise as a result of unfounded investment analysis and unclear due diligence. • The huge scale of integrated logistics hub projects increases the complexities of construction management and cost control.	• Include integrated logistics hub projects in the sub-strategic planning of the Company, and strengthen detailed analysis and marketing due diligence. • Strengthen initial analysis on the project, explore the implementation of measures such as provision for risks of investment projects, incentive system and separation of appointment of intermediary agencies conducting feasibility studies from the project unit, to enhance the independence of agencies, improve the quality of the feasibility study and prevent investment risks.
Risks relating to real estate policies	• Greater regulation and control over the real estate, increase in mortgage interest rate coupled with the tightening of China's real estate market policies may result in a slump in property price and difficult sales.	• Closely monitor changes in policies, conduct an in-depth study into the policies and reasonably adjust the land development pace and direction based on the policies and market changes in a timely manner. • Introduce strategic investors to capitalise on their brand and experience, participate in project planning and development to reduce risks relating to such project.

Risk	Description	Response
Legal and compliance risks	• Incorporating reasonable terms to the lease agreements. • Disputes may arise in the course of operation of the investment projects.	• Commence examinations of major lease agreements. • Establish ties with law firms and professional legal advisors and build up an in-house legal team. • Improve mechanism for the prevention of legal risks to ensure the Company's business are operated in compliance with legal and regulatory requirements.
Exchange rate risk	• RMB exchange rate has been dropping, which results in the rising finance costs of the Company.	• Consider using exchange rate hedging instrument, closely monitor the trend of RMB exchange rate movements and conduct sensitivity analysis. • Adopt precautionary measures by rationalising the structure of loans denominated in foreign currencies and RMB.
Interest rate risk	• As the US enters the interest-hike cycle, the Group's borrowing costs denominated in US dollar may exert adverse impact, which in turn increases the overall borrowing costs.	• Enter into interest rate swap and consider other interest-rate hedging measures. • Reduce capital cost by timely adjusting the size of borrowings denominated in foreign currencies subject to the interest-rate movement of foreign currencies.
Risks relating to recovering receivables of projects	• The undesirable financial positions of the local government where the project is located generate risks of recovering the remaining receivables. • Receivables may only be recovered after two years upon completion of the projects due to huge project investment.	• Strive for land quota, repay the BT payment through the recovery of land premium; strive to procure that the price of the land premium is fixed around the Company's expected target. • Arrange construction progress according to the receipt of funds to avoid advance payments made by the Company.
Risks relating to innovative business	• Lack of experience in management and control of risks relating to commencing innovative business. • Lack of relevant professionals.	• Relevant subsidiaries establish risk management department to manage and control the risks. • Enhance the risk awareness of the professionals.

Risk	Description	Response
Risks relating to financial services and business	• The national and government laws and regulations as well as regulatory requirement are not complied with. • The inability to implement risk management responsibilities for every aspects of the business. • Business objects are not cautiously selected. • The business development method and business model has deviated from its plan.	• Select customers who the Group has previously cooperated with and have a good reputation. • Promulgate operational guidelines for corporate risk prevention and control in the financial sector to prevent operation and compliance risks. • Strengthen the assessment of risk management and the accountability for major risks.
Risks relating to business transition	• There is a greater uncertainty over whether the income of the transformational investment project is able to meet expectations and whether the expansion of new industries is smooth.	• Strengthen research on transformational business and integrate company business resources. • Establish a long-term incentive mechanism and personnel training plan to give full play to the enthusiasm and potential of key staff.

EXTERNAL AUDITOR

During the Year, the fees payable by the Group to the Company's auditor KPMG for audit services and non-audit services were approximately HK$3,611,000 and HK$2,200,000 respectively. The non-audit services include professional services such as professional tax advisory, review of interim results and due diligence work for acquisition projects.

The Audit Committee has reviewed the audit fees, procedures and effectiveness, independence and objectivity of KPMG, and recommended the Board to re-appoint KPMG to be the Company's auditor for the year of 2018 at the forthcoming AGM.

COMPANY SECRETARY

The Company has appointed the company secretary who is responsible for providing secretarial services to the Board and ensuring the operation of the Company is in compliance with Hong Kong listed companies' regulatory requirements as well as enhancing its corporate governance standards.

Directors of the Company have access to the advice and services of the Company Secretary, with a view to ensure that Board procedures and all applicable rules and regulations are followed. Minutes of Board meetings and meetings of all specialised committees under the Board are kept by the Company Secretary and are available for inspection by the directors of the Company at all times.

Minutes of Board meetings and meetings of all specialised committees under the Board are kept by the Company Secretary (who is also the secretary of each of the specialised committees) in sufficient details on the matters considered by all directors and decisions reached, including any concerns raised by directors of the Company or dissenting views expressed. Draft minutes of Board meetings and meetings of all specialized committees under the Board are provided to relevant directors for their comments and the final version of the same are given to relevant directors for their records within a reasonable time.

During the Year, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

GENERAL MEETINGS

Each annual general meeting of the Company provides a channel of direct communication between the Board and the Shareholders. Therefore, the Company has high regard for general meetings, and all directors and senior management are requested to make their best efforts to attend. In respect of each matter (including re-election of directors) at the general meetings of the Company, separate resolutions are proposed by the Chairman of that meeting. At general meetings, all Shareholders are entitled to provide recommendations or conduct inquiries to directors and senior management of the Company regarding issues about the Group's business and operating activities. Directors and senior management of the Company shall explain and elaborate in response to Shareholders' inquiries and recommendations.

The chairman of the Board and the chairmen of the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee attended the AGM of the Company held in 2017 to answer questions raised by the Shareholders.

During the Year, the Company held one general meeting. Set out below is a summary of the matters resolved at the general meeting:

Date	Matters resolved at the annual general meeting
17 May	• receipt of the audited financial statements and the reports of the directors and of the auditors for the year ended 31 December 2016; • payment of the final dividend for the year ended 31 December 2016; • re-election of the retiring directors and authorisation of the Board to fix the directors' remuneration; • re-appointment of KPMG as auditor of the Company and authorisation of the Board to determine their remuneration; • granting of a repurchase mandate to the Board to repurchase shares in the Company; • granting of a general mandate to the Board to allot, issue and otherwise deal with the shares in the Company; and • extending the general mandate granted to the Board to allot, issue and otherwise deal with the shares in the Company.

Voting by poll on shareholders' resolutions

All resolutions at the general meetings of the Company shall be decided by poll so as to allow Shareholders to have one vote for every share held.

Before commencement of the general meetings, the chairman of the general meetings shall explain clearly to Shareholders present the detailed procedures for conducting a poll and answers questions from Shareholders regarding the poll. The Company shall announce the poll results on the websites of the Stock Exchange and the Company on the date of the general meetings.

SHAREHOLDERS' RIGHTS

Convening of special general meeting on requisition of shareholders

In accordance with the Companies Act 1981 of Bermuda (the "Companies Act"), registered Shareholder(s) holding not less than one-tenth (10%) of the paid-up capital of the Company as at the date of the deposit of the requisition shall have the right to submit a written requisition requiring a special general meeting to be convened by the Board.

The written requisition (i) must state the purposes(s) of the meeting, and (ii) must be signed by the requisitionists and deposited at the registered office of the Company for the attention of Company Secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. Such requisitions will be verified by the Company's share registrar and upon its confirmation that the requisition is proper and in order, the Company Secretary will make arrangements in accordance with the relevant laws and regulations for the Board to convene a special general meeting by serving sufficient notice to all Shareholders.

Procedures for putting forward proposals at general meetings

In accordance with Sections 79 and 80 of the Companies Act, the registered Shareholders are entitled to putting forward a proposal at a general meeting if:

(a) they represent not less than one-twentieth (5%) of the total voting rights of the Company as at the date of the deposit of the requisition; or

(b) there are not less than 100 registered Shareholders.

The written requisition stating the resolutions is duly signed by the registered Shareholder(s) concerned, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with must be deposited at the registered office of the Company. Upon receipt of a valid written requisition, the Company shall take appropriate actions and make necessary arrangements, and the Shareholders concerned shall be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act.

The Board is grateful to Shareholders for their views, and welcomes their questions and concerns raised in relation to the management and governance of the Group. Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at Rooms 2206–2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.

Procedures for proposing a person for election as a director of the Company

As regards the procedures for proposing a person for election as a director of the Company, please refer to the procedures made available under the "Corporate Governance" section of the Company's website (www.szihl.com).

Information Disclosure

Information disclosure is not merely an ongoing responsibility and obligation that a listed company must fulfill. Credible information disclosure can effectively build a bridge of communication and understanding between the Company and investors, regulatory authorities and the general public. This can facilitate a broader and more thorough understanding of the Company's values. To regulate information disclosure of the Company and protect the legal interests of the Company and its Shareholders, creditors and other stakeholders, the Company adopted the "Rules Governing Information Disclosure" by reference to the Listing Rules and the circumstances of the Company.

INVESTOR RELATIONS

The Company values the support of its investors over the years and is committed to maintaining and developing close relations with them. The Company is pleased to share its corporate strategy, business development and prospects with investors and welcomes potential investors to obtain information about the Group, as well as to engage in various forms of communications with the Company.

The Company is active in building an effective communication platform with the capital market through channels such as meetings with institutional investors, roadshows and investor conferences. The Company places great emphasis on the investment community and strives to increase analysts' coverage in order to widen publicity of the Company. Up to 2017, 33 highly reputable local and international securities dealers have issued investment research reports on the Company. During the Year, the Company has communicated regularly with investors and analysts through on-site visits, one-on-one meetings or teleconferences, with a total of about 400 batches of domestic and overseas attendances. Through these interactive communication channels, investors' understanding of the Company's business conditions and long-term development strategies is enhanced.

Following the launching of southbound Stock Connect in recent years, the flow of domestic investment funds into Hong Kong stocks market thereby has increased. The Company was also included in the list of the Shanghai Connect and Shenzhen Connect in 2014 and 2016 respectively. Targeting on local investors, the Company expanded its promotional activities for China's capital market in 2017, which included the participation in 7 investor conferences organized in China, and successfully obtained initial coverage investment research reports from 5 local securities dealers. This further strengthened the bilateral communication between the Company and local institutional investors and local securities dealers, and also enhanced the popularity of the Company in the local capital market.

The Company has placed great emphasis on the communication with the capital market, the management has also actively participated in the Company's investor promotional activities, including investor presentation of results, overseas roadshows, conferences or seminars in the capital market etc. Details on all promotional activities for the Year are as follows:

2017	Major events
January	• Participated in HKEx's "Stock Connect Onshore Corporate Access Day" held in Shenzhen
	• Participated in Essence International's "Investment Strategy Conference 2017" held in Shenzhen
March	• Presented the Company's 2016 annual results to investors
	• Held the Analysts Meeting for the Company's 2016 annual results
	• Conducted roadshows in Hong Kong on the Company's annual results
April	• Participated in Essence International's "Guangdong-Hong Kong-Macao Greater Bay Area" Hong Kong stocks series roadshows held in Shenzhen
May	• Conducted roadshows in Japan and Singapore on the Company's annual results
	• Participated in Morgan Stanley's "The Third Annual China Summit" held in Beijing
June	• Participated in HKEx's "Hong Kong Stock Enterprises and Mainland Investment and Research Institutions Summit" held in Shanghai
	• Participated in Shenzhen Stock Exchange and HKEx's "Hong Kong Stock Connect Qianhai Summit" held in Shenzhen
	• Participated in "Daiwa Auto & Industrial Leaders Conference 2017" held in Hong Kong
August	• Announced the Company's 2017 interim results, Announcement Presentation and Analysts Meeting were cancelled due to typhoon
	• Conducted USD Perpetual Bonds roadshows in Singapore, Switzerland and the United Kingdom
September	• Conducted roadshows in Hong Kong, United States and Canada on the Company's interim results
October	• Participated in "CICC Investment Forum 2017" held in Beijing
November	• Conducted roadshows in the United Kingdom, France, Italy on the Company's interim results
	• Conducted USD Perpetual Bonds Deal Roadshow in Hong Kong
	• Participated in "Daiwa Investment Forum 2017" held in Hong Kong

In order to enhance transparency and enable investors' understanding of the Company's business operations, the Company provides investors with information of the Group through (among others) special general meetings, annual general meetings, annual reports, interim reports and the Company's website.

The Company's website (www.szihl.com) is the official access to the latest information on the Company. Public notices, circulars, press releases, results announcements and other announcements are uploaded to the website on a regular basis. Investors can also access general information, biographies of the directors and senior management, as well as business, financial and other information on the website. All information is available in both Chinese and English.

Through active and regular investor relations activities, the Company has further enhanced the transparency of information disclosure, increased information bilateral communications, deepened its investors' understanding of and trusts in the Company's business, established confidence in the Company's future development, as well as won recognition and support from the market. As a result, the Company has been able to fully demonstrate the potential of its business development and its intrinsic value. In addition, the Company also collects extensive feedback from the market through these activities in order to improve corporate governance and the operational and management standards of the Company.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of the directors (the "Directors") and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of The Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in The Rules Governing the Listing of Securities on the Stock Exchange were set out as follows and in the section headed "**SHARE OPTION SCHEME**" in the Report of the Directors on pages 49 to 56 of this annual report:

Long positions in ordinary shares of the Company

Name of Directors	*Number of ordinary shares held*	*Capacity*	*Nature of interest*	*Approximate % of issued shares of the Company*
Gao Lei	502,305	beneficial owner	personal	0.025%
Li Hai Tao	22,000	beneficial owner	personal	0.001%
Zhong Shan Qun	212,000	beneficial owner	personal	0.010%
Liu Jun	900,000	beneficial owner	personal	0.044%
Hu Wei	120,716	beneficial owner	personal	0.006%
Xie Chu Dao	310,763	beneficial owner	personal	0.015%

Save as disclosed above and in the section headed "**SHARE OPTION SCHEME**" in the Report of the Directors on pages 49 to 56 of this annual report, as at 31 December 2017, none of the Directors or chief executives 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) as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "**DIRECTORS' INTERESTS IN SECURITIES**" above and the section headed "**SHARE OPTION SCHEME**" as set out in the Report of the Directors on pages 49 to 56 of this annual report, at no time during the year ended 31 December 2017 was the Company, any of its subsidiaries, the holding company of the Company or any of its subsidiaries a party to any arrangement to enable the Directors, chief executives, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of the substantial shareholders of the Company, other than the Directors or chief executives, as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO are set out below:

Name of Shareholders	***Number of ordinary shares held*** *Note (1)*	***Capacity***	***Approximate % of issued shares of the Company***
Shenzhen Investment Holdings Company Limited ("SIHCL") — *Note (2)*	897,563,937 (L)	interest of controlled corporation	44.24%
Ultrarich International Limited ("Ultrarich") – *Note (3)*	897,563,937 (L)	beneficial owner	44.24%
Chan See Ting	1,100,768 (L)	beneficial owner	0.05%
	302,635,269 (L) *Note (4)*	interest of controlled corporation	14.92%
Lai Hoi Man	1,100,768 (L)	family interests	0.05%
	302,635,269 (L) *Note (4)*	interest of controlled corporation	14.92%
Horoy Enterprise Holdings Limited	213,612,196 (L)	beneficial owner	10.53%
UBS Group AG	25,253,688 (L)	person having a security interest in shares	1.245%
	122,809,493 (L) *Note (5)*	interest of controlled corporation	6.053%
	30,894 (S) *Note (5)*	interest of controlled corporation	0.0015%

Notes:

(1) *Letter "L" represents substantial shareholders' long positions in the shares and underlying shares while letter "S" represents substantial shareholders' short positions in the shares and underlying shares.*

(2) *Ultrarich is a wholly-owned subsidiary of SIHCL and holds 897,563,937 shares in the long positions of the Company. Accordingly, SIHCL is deemed to be interested in the long positions of 897,563,937 shares in the Company held by Ultrarich.*

(3) *Messrs. Gao Lei, Li Hai Tao, Liu Jun and Li Lu Ning (who resigned as an executive Director of the Company on 17 May 2017) are the directors of Ultrarich which has an interest in the shares of the Company which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.*

(4) *Each of Chan See Ting and Lai Hoi Man holds 40% and 60% of the equity interest in Horoy Enterprise Holdings Limited respectively and also holds 40% and 60% of the equity interest in Horoy International Holdings Limited (a company which holds 89,023,073 shares in the long positions of the Company) respectively. Accordingly, they are deemed to be interested in the aggregate holdings of long positions of 302,635,269 shares in the Company held by these companies.*

(5) *UBS AG, UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Asset Management Trust Company, UBS Asset Management (UK) Limited, UBS Fund Management (Luxembourg) S.A., UBS Fund Management (Switzerland) AG and UBS Financial Services Inc. are wholly-owned by UBS Group AG. Accordingly, UBS Group AG is deemed to be interested in the long positions of an aggregate of 122,809,493 shares in the Company held by these companies and the short positions of 30,894 shares in the Company held by UBS AG.*

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any of the substantial shareholders of the Company, other than Directors or chief executives, who had interests or short positions in the shares and underlying shares of the Company which are as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Shenzhen International Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Shenzhen International Holdings Limited and its subsidiaries ("the Group") set out on pages 83 to 172, which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, 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 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Accounting for the interest in Shenzhen Airlines

Refer to Note 11 to the consolidated financial statements and the accounting policies in Note 2.3.

The key audit matter	How the matter was addressed in our audit
The Group's 49% interest in Shenzhen Airlines Company Limited ("Shenzhen Airlines") is accounted for under the equity method. The Group's share of the profit after tax from Shenzhen Airlines for the year ended 31 December 2017 was HKD800,903,000 and the Group's share of Shenzhen Airlines' net assets was HKD5,601,569,000 as at 31 December 2017. This represented approximately 21% and 8% of the Group's profit attributable to ordinary shareholders of the Company for the year ended 31 December 2017 and total assets as at 31 December 2017 respectively. The complexity of the Shenzhen Airlines' revenue recognition, which involves complicated IT systems and an estimation of the unit fair value of Shenzhen Airlines' customer loyalty programme, and the significant degree of judgement exercised by management of Shenzhen Airlines in relation to the assessment of the carrying values of aircraft and flight equipment and provisions for major overhauls give rise to the risk of potential material misstatements in the Group's interest in Shenzhen Airlines in the consolidated financial statements. We identified the accounting for the interest in Shenzhen Airlines as a key audit matter because the complexity and management judgement involved in the preparation of the financial information of Shenzhen Airlines increases the risk of material misstatement in the consolidated financial statements.	Our audit procedures to assess accounting for the interest in Shenzhen Airlines included the following: • obtaining an understanding of the group-wide controls and the consolidation process, including the issuance of accounting instructions by Group management to Shenzhen Airlines; • evaluating the consolidation adjustments prepared by management to account for the Group's interest in Shenzhen Airlines based on the audited financial information of Shenzhen Airlines; • re-calculating the Group's interest in Shenzhen Airlines and the Group's share of profit of Shenzhen Airlines for the year based on the audited financial information of Shenzhen Airlines; • instructing the auditors of Shenzhen Airlines ("the component auditors") to perform a full scope audit of the financial information of Shenzhen Airlines in accordance with the group audit instructions issued by us; • participating in the component auditors' risk assessment and planning process to identify significant risks of material misstatement of Shenzhen Airlines' financial information and evaluating the audit procedures planned to be performed to respond to the identified significant risks of material misstatement of Shenzhen Airlines' financial information; and • discussing with the component auditors their audit findings and conclusions with regard to their audit and evaluating the sufficiency and appropriateness of the audit evidence for the purpose of our audit of the consolidated financial statements by reviewing the component auditors' reporting deliverables.

Accounting for acquisition of the interest in Derun Company

Refer to Note 11 to the consolidated financial statements and the accounting policies in Note 2.3.

The key audit matter	How the matter was addressed in our audit
On 6 June 2017, the Group completed the acquisition of a 20% equity interest in Chongqing Derun Environment Company Limited ("Derun Company") for a consideration of HKD5,010,306,000, which is accounted for under the equity method. The management engaged an external valuer to perform a valuation on Derun Company to assess the fair value of identifiable net assets at the acquisition date with the amount of HKD17,012,148,000, which involves the exercise of significant judgement and estimation. We identified accounting for acquisition of the interest in Derun Company as a key audit matter because of the significant impact the acquisition has on the consolidated financial statements and because the valuation of identifiable assets and liabilities of Derun Company requires significant judgement and estimation which increases the risk of error or potential management bias.	Our audit procedures to assess accounting for acquisition of the interest in Derun Company included the following: • inspecting the sale and purchase agreement and evaluating management's accounting treatment for the acquisition with reference to the terms set out in the sale and purchase agreement; • obtaining and inspecting the valuation assessment prepared by the external valuers engaged by the directors and on which the directors' assessment of the fair values of the assets and liabilities acquired was based; • assessing the external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity and independence; • involving our internal valuation specialists to assist us in evaluating the valuation methodologies adopted by the external valuers in assessing the fair values of the assets and liabilities acquired; assessing the key assumptions and critical judgements adopted which impacted the valuation by comparing these assumptions and critical judgements with market data, our past experience of similar transactions and the Group's business plan supporting the acquisition; • assessing the disclosures in the consolidated financial statements in respect of the acquisition with reference to the requirements of the prevailing accounting standards.

Assessing potential impairment of goodwill on acquisition of Derun Company

Refer to Note 11 to the consolidated financial statements and the accounting policies in Note 2.3.

The key audit matter	How the matter was addressed in our audit
On 6 June 2017, the Group completed the acquisition of 20% interest in Derun Company with the consideration of HKD5,010,306,000, which is accounted for under the equity method. The difference between the consideration and the Group's share of the fair value of identifiable net assets at the acquisition date, which was amounted to HKD1,746,602,000, was accounted for goodwill. As at 31 December 2017 the management assessed whether goodwill on acquisition of Derun Company may impaired, which involves significant accounting estimates and judgements. We identified assessing potential impairment of goodwill on acquisition of Derun Company as a key audit matter because impairment assessment requires significant judgement and estimation which increases the risk of error or potential management bias.	Our audit procedures to assess potential impairment of goodwill on acquisition of Derun Company included the following: • reviewing the operating result and the assets' market value of Derun Company, obtaining, discussing with management and evaluating the key assumptions underlying management's assessment of potential impairment of goodwill; • obtaining and inspecting the valuation reports prepared by the external valuer engaged by the Group; • evaluating the independence, qualifications, expertise and objectivity of the independent professional appraiser; • with the assistance of our internal valuation specialists, assessing the valuations prepared by the external valuer by evaluating the valuation methodologies adopted, challenging the comparable companies selected and assumptions adopted, including growth rate, rate of return, considering the possibility of management bias in the selection of assumptions adopted; • considering the disclosures in the consolidated financial statements in respect of the impairment assessment and the risks inherent in the key assumptions with reference to the requirements of the prevailing accounting standards.

Assessing potential impairment of certain property, plant and equipment and properties held for sale located in Shenyang

Refer to Note 6 and Note 15 to the consolidated financial statements and the accounting policies in Note 2.8 and Note 2.19.

The key audit matter

The Group operates a logistic park business in Shenyang. Due to the unfavourable business performance of the logistic park, the management of the Group considered that certain assets including property, plant and equipment and properties held for sale located in Shenyang were identified with impairment indicator.

The management engaged a qualified external valuer to perform detailed impairment reviews on these assets located in Shenyang, the assessment of the recoverable amount of which involves the exercise of significant management judgement. Any changes in assumptions adopted to assess the recoverable amount of these assets, including forecast selling prices, occupancy rates and revenue for different kinds of properties in the logistic park, and growth rates and discount rates applied, could have a material impact on impairment charges.

We identified assessing the potential impairment of certain property, plant and equipment and properties held for sale located in Shenyang as a key audit matter because of the significant management judgement and estimation required in making assumptions and estimations which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess the potential impairment of certain property, plant and equipment and properties held for sale located in Shenyang included the following:

- obtaining, discussing with management and evaluating the key assumptions underlying management's assessment of potential impairment of these assets;
- obtaining and inspecting the valuation reports prepared by the external valuer engaged by the Group;
- evaluating the independence, qualifications, expertise and objectivity of the independent professional appraiser;
- with the assistance of our internal valuation specialists, assessing the valuations prepared by the external valuer by evaluating the valuation methodologies adopted, challenging the assumptions adopted, including those relating to selling price, occupancy rate, growth rates, discount rates, comparable market transactions and prevailing market rents for comparable properties in the same location and condition, by comparing these against market available data and considering the possibility of management bias in the selection of assumptions adopted;
- considering the disclosures in the consolidated financial statements in respect of the impairment assessment and the risks inherent in the key assumptions with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors 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. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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.
- 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 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 Wong Chun Pong.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2018

(All amounts in HKD thousands unless otherwise stated)

(For reference only) As at 31 December 2017 RMB'000 (Note 2.6(d))		Note	As at 31 December 2017 HK$'000	2016 HK$'000
	ASSETS			
	Non-current assets			
4,194,746	Property, plant and equipment	6	5,008,054	4,234,225
78,173	Investment properties		93,330	87,390
1,640,886	Land use rights	7	1,959,033	1,784,514
1,651,874	Construction in progress	8	1,972,151	2,056,347
21,852,885	Intangible assets	9	26,089,882	21,286,881
11,965,021	Interests in associates	11	14,284,887	7,490,060
208,351	Interests in joint ventures	12	248,748	260,234
156,557	Available-for-sale financial assets	13	186,912	104,353
215,326	Deferred tax assets	24	257,075	144,189
2,976,104	Other non-current assets	14	3,553,132	1,284,155
44,939,923			53,653,204	38,732,348
	Current assets			
6,360,638	Inventories	15	7,593,884	2,919,482
261,671	Available-for-sale financial assets	13	312,405	954,751
—	Derivative financial instruments		—	113,233
1,751,900	Trade and other receivables	17	2,091,574	2,242,728
882,992	Restricted bank deposits	18	1,054,193	1,629,804
681,770	Deposits in banks with original maturities over 3 months	18	813,956	1,540,195
4,579,057	Cash and cash equivalents	18	5,466,878	8,253,937
14,518,028			17,332,890	17,654,130
—	Assets of disposal group classified as held for sale	16	—	4,354,416
14,518,028			17,332,890	22,008,546
59,457,951	**Total assets**		70,986,094	60,740,894

(All amounts in HKD thousands unless otherwise stated)

(For reference only) As at 31 December 2017 RMB'000 (Note 2.6(d))		Note	As at 31 December 2017 HK$'000	2016 HK$'000
	EQUITY AND LIABILITIES			
8,135,637	Share capital and share premium	19	**9,159,662**	8,323,602
11,866,979	Other reserves and retained earnings	20	**14,757,551**	10,310,529
20,002,616	**Equity attributable to ordinary shareholders of the Company**		**23,917,213**	18,634,131
1,982,837	**Perpetual securities**	21	**2,330,939**	—
9,265,827	**Non-controlling interests**		**11,062,354**	9,801,512
31,251,280	**Total equity**		**37,310,506**	28,435,643
	Liabilities			
	Non-current liabilities			
9,124,392	Borrowings	22	**10,893,496**	7,574,893
136,789	Provision for maintenance/resurfacing obligations	23	**163,311**	142,286
1,852,626	Deferred tax liabilities	24	**2,211,827**	1,759,275
8,142,132	Other non-current liabilities	25	**9,720,788**	10,009,736
19,255,939			**22,989,422**	19,486,190
	Current liabilities			
4,079,549	Trade and other payables	26	**4,870,522**	7,447,749
644,950	Income tax payable		**769,998**	525,885
23,970	Provision for maintenance/resurfacing obligations	23	**28,617**	36,801
4,130,891	Borrowings	22	**4,931,819**	4,808,626
71,372	Derivative financial instruments		**85,210**	—
8,950,732			**10,686,166**	12,819,061
28,206,671	**Total liabilities**		**33,675,588**	32,305,251
59,457,951	**Total equity and liabilities**		**70,986,094**	60,740,894

The consolidated financial statements on pages 83 to 172 were approved by the Board of Directors on 27 March 2018 and were signed on its behalf.

Li Hai Tao
Director

Zhong Shan Qun
Director

The notes on pages 90 to 172 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(All amounts in HKD thousands unless otherwise stated)

(For reference only) As at 31 December 2017 RMB'000 (Note 2.6(d))		Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
8,386,440	**Revenue**	5, 27	**9,706,528**	7,787,180
(5,293,054)	Cost of sales	29	**(6,126,220)**	(4,656,733)
3,093,386	**Gross profit**		**3,580,308**	3,130,447
46,365	Other income		**53,662**	110,821
2,275,947	Other gains - net	28	**2,634,198**	866,660
(64,854)	Distribution costs	29	**(75,062)**	(73,101)
(523,647)	Administrative expenses	29	**(606,072)**	(509,560)
4,827,197	**Operating profit**		**5,587,034**	3,525,267
16,729	Share of profit of joint ventures	12	**19,363**	42,688
1,182,803	Share of profit of associates	11	**1,368,985**	1,182,461
6,026,729	**Profit before finance costs and income tax**		**6,975,382**	4,750,416
98,145	Finance income	31	**113,593**	195,076
(779,357)	Finance costs	31	**(902,033)**	(1,190,687)
(681,212)	Finance costs - net	31	**(788,440)**	(995,611)
5,345,517	**Profit before income tax**		**6,186,942**	3,754,805
(1,235,909)	Income tax expense	32	**(1,430,450)**	(837,623)
4,109,608	**Profit for the year**		**4,756,492**	2,917,182
	Profit attributable to:			
3,319,294	Ordinary shareholders of the Company		**3,841,776**	2,115,695
790,314	Non-controlling interests		**914,716**	801,487
4,109,608			**4,756,492**	2,917,182
	Earnings per share attributable to ordinary shareholders of the Company during the year (expressed in HK dollars per share)			
	– Basic	33(a)	**1.93**	1.10
	– Diluted	33(b)	**1.92**	1.09

The notes on pages 90 to 172 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HKD thousands unless otherwise stated)

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Profit for the year		**4,756,492**	2,917,182
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Fair value losses on available-for-sale financial assets, net of tax	20	**(37,926)**	(47,196)
Reclassification of fair value gains to consolidated income statement upon disposal of available-for-sale financial assets, net of tax		**–**	(261,317)
Fair value gains on derivative financial instruments, net of tax		**–**	1,483
Share of other comprehensive income/(loss) of associates	11	**74,539**	(8,267)
Currency translation differences		**2,122,933**	(1,832,200)
Other comprehensive income/(loss) for the year, net of tax	24	**2,159,546**	(2,147,497)
Total comprehensive income for the year		**6,916,038**	769,685
Total comprehensive income attributable to:			
Ordinary shareholders of the Company		**5,291,360**	656,758
Non-controlling interests		**1,624,678**	112,927
Total comprehensive income for the year		**6,916,038**	769,685

The notes on pages 90 to 172 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HKD thousands unless otherwise stated)

	Attributable to ordinary shareholders of the Company					
	Share capital and share premium	*Other reserves*	*Retained earnings*	*Subtotal*	*Non-controlling interests*	*Total equity*
Balance at 1 January 2016	7,625,528	(118,221)	10,652,736	18,160,043	10,539,424	28,699,467
Comprehensive income						
Profit for the year	–	–	2,115,695	2,115,695	801,487	2,917,182
Other comprehensive income						
Fair value losses on available-for-sale financial assets, net of tax	–	(47,196)	–	(47,196)	–	(47,196)
Reclassification of fair value gains to consolidated income statement upon disposal of available-for-sale financial assets, net of tax	–	(261,317)	–	(261,317)	–	(261,317)
Fair value gains on derivative financial instruments, net of tax	–	1,483	–	1,483	–	1,483
Share of other comprehensive loss of an associate	–	(6,965)	–	(6,965)	(1,302)	(8,267)
Currency translation differences	–	(1,144,942)	–	(1,144,942)	(687,258)	(1,832,200)
Total other comprehensive loss	–	(1,458,937)	–	(1,458,937)	(688,560)	(2,147,497)
Total comprehensive (loss)/income	–	(1,458,937)	2,115,695	656,758	112,927	769,685
Transactions with owners in their capacity as owners						
Employee share options						
– proceeds from shares issued	11,980	–	–	11,980	–	11,980
– value of employee services	23,942	–	–	23,942	–	23,942
Transfer to reserves	–	221,920	(221,920)	–	–	–
Dividend relating to 2015	–	–	(949,860)	(949,860)	–	(949,860)
Issue of scrip shares as dividend	662,152	–	–	662,152	–	662,152
Forfeiture of unclaimed dividends	–	–	69	69	–	69
Dividend paid to non-controlling interests by subsidiaries	–	–	–	–	(662,645)	(662,645)
Transactions with non-controlling interests	–	69,047	–	69,047	(207,378)	(138,331)
Capital injections by non-controlling interests	–	–	–	–	19,184	19,184
Total transactions with owners in their capacity as owners	698,074	290,967	(1,171,711)	(182,670)	(850,839)	(1,033,509)
Balance at 31 December 2016	8,323,602	(1,286,191)	11,596,720	18,634,131	9,801,512	28,435,643

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HKD thousands unless otherwise stated)

	Attributable to ordinary shareholders of the Company						
	Share capital and share premium	*Other reserves*	*Retained earnings*	*Subtotal*	*Perpetual securities*	*Non-controlling interests*	*Total equity*
Balance at 1 January 2017	8,323,602	(1,286,191)	11,596,720	18,634,131	–	9,801,512	28,435,643
Comprehensive income							
Profit for the year	–	–	3,841,776	3,841,776	–	914,716	4,756,492
Other comprehensive income							
Fair value losses on available-for-sale financial assets, net of tax	–	(37,926)	–	(37,926)	–	–	(37,926)
Share of other comprehensive income of associates	–	68,720	–	68,720	–	5,819	74,539
Currency translation differences	–	1,418,790	–	1,418,790	–	704,143	2,122,933
Total other comprehensive income	–	1,449,584	–	1,449,584	–	709,962	2,159,546
Total comprehensive income	–	1,449,584	3,841,776	5,291,360	–	1,624,678	6,916,038
Transactions with owners in their capacity as owners							
Employee share options							
– proceeds from shares issued	143,457	–	–	143,457	–	–	143,457
– value of employee services	29,358	–	–	29,358	–	–	29,358
Transfer to reserves	–	602,632	(602,632)	–	–	–	–
Dividend relating to 2016 (Note 34)	–	–	(841,938)	(841,938)	–	–	(841,938)
Issue of scrip shares as dividend (Note 34)	663,245	–	–	663,245	–	–	663,245
Forfeiture of unclaimed dividends	–	–	92	92	–	–	92
Dividend paid to non-controlling interests by subsidiaries	–	–	–	–	–	(518,403)	(518,403)
Non-controlling interests arising on business combinations (Note 38)	–	–	–	–	–	206,888	206,888
Transactions with non-controlling interests	–	(2,492)	–	(2,492)	–	(55,040)	(57,532)
Capital injections by non-controlling interests	–	–	–	–	–	2,719	2,719
Issue of perpetual securities (Note 21)	–	–	–	–	2,330,939	–	2,330,939
Total transactions with owners in their capacity as owners	836,060	600,140	(1,444,478)	(8,278)	2,330,939	(363,836)	1,958,825
Balance at 31 December 2017	9,159,662	763,533	13,994,018	23,917,213	2,330,939	11,062,354	37,310,506

The notes on pages 90 to 172 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HKD thousands unless otherwise stated)

	Note	*Year ended 31 December* *2017*	*2016*
Cash flows from operating activities			
Cash generated from operations	35	**4,092,682**	3,097,360
Interest paid		**(531,520)**	(450,498)
Income tax paid		**(1,132,882)**	(731,439)
Net cash generated from operating activities		**2,428,280**	1,915,423
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	38	**(1,255,039)**	—
Prepayment for acquisition of a subsidiary	39(c)	**(1,712,000)**	—
Purchases of property, plant and equipment, land use rights, construction in progress, intangible assets and other non-current assets		**(2,031,388)**	(3,494,257)
Prepayment for land use rights included in assets of disposal group classified as held for sale		**—**	(2,902,790)
Increase in interests in associates and joint ventures		**(5,293,871)**	(79,805)
Proceeds from disposal of property, plant and equipment, and concession intangible assets	35	**31,826**	2,034
Purchase of available-for-sale financial assets	13	**(72,994)**	(654,947)
Proceeds from disposal of available-for-sale financial assets, net of tax		**685,490**	401,709
Increase/(decrease) in cash and cash equivalents after disposal of a subsidiary		**141,820**	(128,302)
Residual payment for acquisition of subsidiaries		**—**	(22,324)
Decrease in deposits in banks with original maturities over 3 months		**726,239**	552,716
Interest received		**92,893**	171,075
Dividends received		**625,631**	466,181
Net cash used in investing activities		**(8,061,393)**	(5,688,710)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares under employee share option scheme	19	**143,457**	11,980
Capital injections by non-controlling interests		**2,719**	19,184
Payment for acquisition of non-controlling interest in a non-wholly owned subsidiary		**(57,532)**	—
Proceeds from borrowings	35(b)	**8,907,890**	4,217,392
Repayments of borrowings	35(b)	**(7,698,934)**	(4,495,514)
Repayments of borrowings from related party	35(b)	**(23,148)**	—
Issuance of perpetual securities	21	**2,330,939**	—
Dividends paid to the Company's and subsidiaries' shareholders		**(697,004)**	(950,284)
Net cash generated from/(used in) financing activities		**2,908,387**	(1,197,242)
Net decrease in cash and cash equivalents		**(2,724,726)**	(4,970,529)
Cash and cash equivalents at beginning of year		**8,253,937**	13,253,721
Exchange losses		**(62,333)**	(29,255)
Cash and cash equivalents at end of year	18	**5,466,878**	8,253,937

The notes on pages 90 to 172 are an integral part of these consolidated financial statements.

1. GENERAL

(a) General information

The principal activities of Shenzhen International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") include the following businesses:

- Toll roads; and
- Logistic business.

The Group's operations are mainly in the People's Republic of China ("PRC").

The Company is a limited liability company incorporated in Bermuda and is an investment holding company. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company has its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). One of the major subsidiaries of the Company, Shenzhen Expressway Company Limited ("Shenzhen Expressway") is listed on the Stock Exchange and Shanghai Stock Exchange.

As at 31 December 2017, Ultrarich International Limited ("Ultrarich") owned 897,563,937 ordinary shares of the Company directly, representing approximately 44.24% of the issued share capital of the Company. As Shenzhen Investment Holdings Company Limited ("SIHCL") held the 100% equity interest in Ultrarich, it had a deemed interest in 44.24% of the equity in the Company held by Ultrarich and was the largest shareholder of the Company. SIHCL is supervised and managed by Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission ("Shenzhen SASAC"). The directors of the Company regard that Shenzhen SASAC can control the Company's relevant activities due to its voting power held and is the de facto controller of the Company.

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 27 March 2018.

(b) Land development in Qianhai, Shenzhen for the Group

Shenzhen International West Logistics Co., Ltd. ("West Logistics"), a wholly-owned subsidiary of the Group, owned 5 land parcels with an aggregate site area of approximately 380,000 square metres for logistics purpose in Qianhai, Shenzhen. On 5 October 2015, the Group entered into a land consolidation and preparation framework agreement with Urban Planning Land and Resources Commission of the Shenzhen Municipality ("Shenzhen UPLRC") and Authority of Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone of Shenzhen ("Qianhai Authority") in respect of the Group's land parcels in Qianhai. The parties had agreed to conduct consolidation and preparation work in respect of 5 land parcels owned by West Logistics in Qianhai by way of land swap, monetary compensation and profit sharing. Pursuant to the framework agreement, Shenzhen UPLRC and Qianhai Authority have agreed to arrange a land site with an area of approximately 38,800 square metres at Qianhai Shenzhen-Hong Kong Cooperation Zone as the site for the Group's first phase project. The gross floor area of the first phase project will be approximately 100,000 square metres.

As at 31 December 2016, according to the relevant land agreement, the Group is not required to pay the land value (net of the cost of land parcel No. T102-0069 previously owned by West Logistics) of the three land sites for Qianhai first phase project totaling RMB2,440 million (equivalent to HK$2,830 million) to the relevant government department for the time being.

1. GENERAL *(continued)*

(b) Land development in Qianhai, Shenzhen for the Group *(continued)*

On 13 October 2017, the Group entered into a supplemental agreement with Shenzhen UPLRC and Qianhai Authority relating to the land consolidation and preparation of all five land parcels owned by the Group in respect of the following principal matters:

- The benchmark date for assessing the land values shall be 1 January 2015, which shall also be the commencement date of the term of land use under the new land use arrangements. The term of land use shall be the maximum term of years permissible under national regulations.
- Entitlements to the assessed land values:
  - the land value in relation to the previous land use arrangements assessed by reference to the above benchmark date shall be attributed to the Group in full.
  - the remaining balance of the assessed land value under the new land use arrangements in excess of such assessed land value of the previous land use arrangements by reference to the above benchmark date shall be shared as to 60% to the Qianhai Authority and 40% to the Group, after deduction of 5% of land appreciation gains as fixed costs pursuant to governmental policy requirements.

In accordance with the principles set out in the abovementioned supplemental agreement and based on the assessments conducted by the parties thereby under the new and previous land use arrangements, the aggregate value of land sites under the new land use arrangements in Qianhai to which the Group is entitled to compensation amounted to approximately RMB8,370 million (approximately HKD9,690 million). It shall be compensated through the obtaining of land sites in Qianhai under the new land use arrangements by way of swap of land sites in equivalent values, with 1 January 2015 as the benchmark date for ascertaining land prices.

In connection therewith, the aforementioned profit-oriented land site with an area of approximately 38,800 square metres at Qianhai Shenzhen-Hong Kong Cooperation Area obtained by the Group in 2016 represents the Group's first compensated land site under the new land use arrangements, being a part of the swap of land sites in respect of the aforesaid aggregate amounts of land compensation. Therefore, land value (net of the cost of land parcel No. T102-0069 previously owned by West Logistics) of the three land sites for Qianhai first phase project totaling RMB2,440 million (equivalent to HK$2,830 million) was no longer required to be paid to the Qianhai Authority, and was recognised as other gain-net in the consolidated income statement for the year ended 31 December 2017. Compensation for the consolidation and preparation of the Group's remaining land sites in Qianhai will be received as and when appropriate in accordance with the overall planning of the Qianhai Authority.

(All amounts in HKD thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of compliance and basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of the available-for-sale financial assets, derivative financial instruments and investment properties, which are carried at fair value.

Non-current assets are stated at the lower of carrying amount and fair value less cost to sell.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 35(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) New standards and interpretations that are not yet effective and have not been early adopted

		Effective for annual periods beginning on or after
Amendments to HKFRS 2	Share-based payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
Amendments to HKAS 40	Investment Property: Transfers of investment property	1 January 2018
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16	Leases	1 January 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Statement of compliance and basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations that are not yet effective and have not been early adopted *(continued)*

The Group is in the process of assessing the impact of the above new standards and amendments to existing standards. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(i) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Statement of compliance and basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations that are not yet effective and have not been early adopted *(continued)*

HKFRS 9, Financial instruments *(continued)*

(i) Classification and measurement *(continued)*

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group preliminarily plans not to elect this designation option for any of the investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in profit or loss as they arise. This will give rise to a change in accounting policy as currently the Group recognises the fair value changes of available-for-sale equity investments in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in Note 2.15. This change in policy will have no impact on the Group's net assets and total comprehensive income, but will increase volatility in profit or loss. Upon the initial adoption of HKFRS 9, fair value gains of HKD202,679,000 related to the available-for-sale investments will be transferred from the fair value reserve to retained profits at 1 January 2018.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(ii) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, there will be no material impact on the Group's net asset by adopting this policy as at 31 December 2017.

(iii) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Statement of compliance and basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations that are not yet effective and have not been early adopted *(continued)*

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(i) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2.30. Currently, revenue arising from construction contracts is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

– When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

– When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

– When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from construction contracts. However, revenue recognition for sales of properties is expected to be affected as follows:

– Sales of properties: currently the Group's property development activities are carried out in PRC only. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of the PRC, the Group has assessed that its property sales contracts will not meet the criteria for recognising revenue over time and therefore revenue from property sales will continue to be recognised at a point in time. Currently the Group recognises revenue from property sales upon the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured, which is taken to be the point in time. The Group has assessed that under the transfer-of-control approach in the new standard revenue from property sales will generally be recognised when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. This would not have impact on the timing of recognition of revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Statement of compliance and basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations that are not yet effective and have not been early adopted *(continued)*

HKFRS 15, Revenue from contracts with customers *(continued)*

(ii) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

Advance payments are not common in the Group's arrangements with its customers, with the exception of when residential properties are marketed by the Group while the property is still under construction.

In assessing whether such advance payments schemes include a significant financing component, the Group has considered the length of time between the payment date and the date when the customers obtain control of the properties based on the typical arrangements entered into with the customers.

Where such advance payment schemes include a significant financing component, the transaction price will need to be adjusted to separately account for this component. Such adjustment will result in interest expense being recognised to reflect the effect of the financing benefit obtained from the customers during the period between the payment date and the date when the customers obtain control of the properties, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer. However, the actual extent of impact of this new accounting policy will also depend on whether and by how much such interest expense can be capitalised as part of the cost of the properties under HKAS 23, borrowing costs. If the interest expense is to be capitalised until the construction work is completed, then this new accounting policy will not have a material impact on the Group's net profits during the construction period and gross profit from the sales of properties. The Group is in the process of assessing the implication of the significant financing component identified from the property sales on its capitalisation policy.

The Group preliminarily plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of"open" contracts for sales of properties at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material, and the expected changes in accounting policies as described above will have no material impact on the Group's financial results from 2018 onwards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Statement of compliance and basis of preparation *(continued)*

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New standards and interpretations that are not yet effective and have not been early adopted *(continued)*

HKFRS 16, Leases

As disclosed in note 2.31 currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 37, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HKD1,048,171,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(b) Change in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Common control combination

Merger accounting is used for business combinations under common control by the Group.

Under merger accounting, the consolidated financial statements include the financial position, results and cash flows of the combining companies as if the current group structure had been in existence since their respective dates of under common control.

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

The adjustment to eliminate the share capital of entities combined and investment cost has been recorded as merger reserve in consolidated financial statements.

2.2.2 Company's balance sheet

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required when there is any indication that the investment is impaired or upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Associates

Associates are all entities in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions. Interests in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's interests in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to"share of profit/(loss) of associates" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Sale or contribution of assets between the Group and its associate constitutes a business is accounted for in accordance with the accounting policy set out in Note 2.2.1(c). For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the Group's profit or loss only to the extent of the unrelated the Group's interest in that associate.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 interests in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's interests in joint ventures include goodwill identified on acquisition. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to "share of profit/(loss) of joint ventures" in the consolidated income statement.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Sale or contribution of assets between the Group and its joint venture which constitutes a business is accounted for in accordance with the accounting policy set out in Note 2.2.1(c). For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the Group's profit or loss only to the extent of the unrelated the Group's interest in that joint venture.

2.5. Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Functional currency of the Company is Renminbi ("RMB"). As the Company is listed on the Stock Exchange, the consolidated financial statements are presented in HKD which is the presentation currency of the Group and the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "finance income or cost", except when capitalised on the basis set out in Note 2.26. All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains – net".

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss is recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(d) RMB figures

RMB in the consolidated balance sheet and the consolidated income statement were presented before translated into HKD according to the accounting policies in Note 2.6(c).

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance expense are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation of buildings and structures relating to the toll roads is calculated to write off their costs to their estimated residual values on a straight-line basis over the unexpired periods of the leases or toll road operating right, whichever is shorter.

Amortisation of leasehold land commences from the time when the land interest becomes available for its intended use. Amortisation on leasehold land and depreciation on other assets are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land and buildings	10 - 70 years or over the term of the unexpired leases, whichever is shorter
Leasehold improvements	4 years or over the term of the unexpired leases, whichever is shorter
Motor vehicles	5 - 8 years
Furniture, fixtures and equipment	3 - 10 years
Loading equipment and facilities in port	10 - 25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in the consolidated income statement.

2.9 Construction in progress

Construction in progress represents the direct costs of construction incurred plus interest capitalised up to the date of completion of the construction of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment and intangible assets when completed and ready for use.

2.10 Investment properties

Investment property, principally comprising commercial building and car parking spaces, is held for long-term rental yields and is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs. After initial recognition, investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by valuers. Changes in fair values are recorded in the consolidated income statement as part of "other gains – net".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.12 Concession intangible assets

Where the Group has entered into contractual service concession arrangements ("Service Concessions") with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures, the Group carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange of a right to operate the toll roads concerned and the entitlement to the toll fees collected from users of the toll road services. Concession intangible assets correspond to the right granted by the respective concession grantors to the Group to charge users of the toll road services and the fact that the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of construction costs incurred to be recoverable.

Land use rights acquired in conjunction with the Service Concessions which the Group has no discretion or latitude to deploy for other services other than the use in the Service Concessions are treated as intangible assets acquired under the Service Concessions.

Amortisation of concession intangible assets is calculated to write off their costs on a units-of-usage basis, whereby amortisation is provided based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate those roads (the "Traffic Flow Amortisation Method"). It is the Group's policy to review regularly the total projected traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustments will be made should there be a material change.

2.13 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.14 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below (or disposal groups)) are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Financial assets

2.15.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition and re-evaluate their classification at each balance sheet date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The loans and receivables comprise "trade and other receivables", "restricted bank deposits", "deposits in banks with original maturities over 3 months", "cash and cash equivalents" and long-term receivables included in "other non-current assets" in the consolidated balance sheet.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

2.15.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investment are initially recognised at fair value for all financial assets carried at fair value through profit or loss, and their transaction costs are amortised through consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the fair value adjustments accumulated recognised in equity are reclassified to the consolidated income statement as "other gains–net".

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of "other income" when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. The fair value of investments in equity instruments that do not have a quoted market price in an active market is measured by using appropriate estimation technique. The investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Impairment of financial assets

(a) Assets carried at amortised cost

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. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at the end of each reporting period.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.17 Financial liabilities

Financial liabilities (including trade and other payables, bank and other borrowings and other non-current liabilities) are initially measured at fair value and subsequently measured at amortised cost using effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts through the expected life of the financial liability, or, where appropriate, a shorter period to net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Derivative financial instruments and hedging activities

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2.19 Inventories

Inventories mainly include completed properties for sale, properties under development and toll tickets and materials and spare parts for the repairs and maintenance of expressways, and they are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, represents the actual cost of purchase and development. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Completed properties remaining unsold at year ended are stated at the lower of cost and net realisable value. Cost comprises development costs attributable to the unsold properties. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.20 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.21 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.22 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Perpetual securities

Perpetual securities are classified as equity if it is non-redeemable, or redeemable only at the issuer's option, and any distributions are discretionary. Distributions on perpetual securities classified as equity are recognised as distributions within equity.

2.24 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.25 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as borrowing costs over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.26 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.27 Current and Deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in other comprehensive income or equity. In this case, the tax is also recognised in other comprehensive income or equity.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Inside basis differences

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's and joint venture's undistributed profits is not recognised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(All amounts in HKD thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.28 Employee benefits and share-based payments

(a) Pension obligations

The Group operates a defined contribution retirement benefits scheme, Mandatory Provident Fund (the "MPF Scheme"), under the Mandatory Provident Fund Ordinance in Hong Kong for all Hong Kong employees who are eligible to participate in the MPF Scheme. Besides, the Group participates in defined contribution retirement schemes organised by the local government authorities in the PRC.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate scheme. Contributions payable or paid by the Group and employees are calculated as a percentage of employees' basic salaries. The amounts of employee benefit expenses charged to the consolidated income statement represent the contribution payable or paid by the Group to the scheme during the year.

Apart from these, the Group has no legal or constructive obligations for further payments.

(b) Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, for staff remuneration under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. The Group recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.28 Employee benefits and share-based payments *(continued)*

(c) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.29 Provisions

Provisions for environmental restoration, restructuring costs, legal claims and the resulting maintenance and resurfacing cost, except for upgrade services under the respective service concessions, are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.30 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Toll revenues

The Group's toll revenue from operation of the toll roads is recognised when the related services have been provided, revenue and total costs can be measured reliably and economic benefits with transaction can flow into the Group. The settlement period of the toll revenue from toll road operations is normally within a month due to the implementation of unified toll collection policy on expressways of the Group in the PRC.

(b) Construction service revenue under Service Concessions

Revenue generated by construction and upgrade services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The consideration may be rights to attain a financial asset or an intangible asset.

The Group uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period. The stage of completion is measured by reference to the construction costs of the related infrastructures incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.30 Revenue recognition *(continued)*

(c) Rental income

Rental income from properties letting under operating leases is recognised on a straight-line basis over the lease terms.

(d) Logistic related service revenues

Logistic related service revenues includes: (i) provision of logistics management, including freight forwarding services, and other ancillary services; (ii) loan financing services and (iii) cargo shipment, transhipment and storage of port. Logistics related service revenues are recognised when the related services are rendered.

(e) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customers, the customer have accepted the products and collectability of the related receivables is reasonably assured.

(f) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are recorded as advanced proceeds received from customers under 'trade and other payables'.

(g) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(h) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.31 Operating leases

(a) When a group company is the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(b) When a group company is the lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income from operating lease is recognised over the term of the lease on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.32 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.33 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be reliably measured.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.34 Dividend distribution

Dividend distribution to the Company's ordinary shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, when appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies approved by the board of directors. The Group identifies and evaluates financial risks in close co-operation with the Group's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excessive liquidity.

(All amounts in HKD thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

	As at 31 December	
	2017	*2016*
Assets		
HKD	**76,326**	29,969
United States dollars ("USD")	**925,540**	970,030
	1,001,866	999,999
Liabilities		
HKD	**1,245,443**	2,178,810
USD	**2,856,908**	4,863,147
	4,102,351	7,041,957

Apart from the above, the Group did not have significant exposure to foreign exchange risk. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2017, should HKD and USD be weakened/strengthened by 5% against RMB, with all other factors remain unchanged, the profit after income tax for the year would be affected as follows:

	Change of profit after income tax - increase/(decrease)	
	2017	*2016*
HKD against RMB		
– Weakened by 5%	**47,342**	93,552
– Strengthened by 5%	**(47,342)**	(93,552)
USD against RMB		
– Weakened by 5%	**72,193**	163,480
– Strengthened by 5%	**(72,193)**	(163,480)

The net fair value of foreign exchange forward contracts entered into by the Group for managing the risk relating to monetary assets and liabilities in foreign currencies as at 31 December 2017 was HKD85,210,000 and recognised as derivative financial liability (2016: HKD113,233,000 and recognised as derivative financial asset).

(All amounts in HKD thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

Apart from deposits held in banks, the Group has no significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing bank deposits resulted from the changes in interest rates, because the interest rates of deposit balances are not expected to change significantly.

The Group's interest rate risk arises from long-term bank borrowings, senior notes, medium-term notes, and corporate bonds. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Senior notes, medium-term notes and corporate bonds issued at fixed rates expose the Group to fair value interest rate risk. The Group adjusts the proportion of borrowings at fixed rate against borrowings at floating rate based on the change of the finance market environment. During 2017 and 2016, the Group's borrowings at variable rates were mainly denominated in HKD and RMB. For bank borrowings in the PRC, the interest rate would be adjusted accordingly should the lending rate promulgated by the People's Bank of China ("PBOC") be changed.

As at 31 December 2017, borrowings of the Group which were issued at floating rates amounted to approximately HKD8,933,090,000 (2016: HKD4,247,658,000). As at 31 December 2017, should the interest rate be increased/decreased by 50 basis points with all other factors remain unchanged and without taking into account interest capitalisation, the finance costs of the Group would be increased/decreased by approximately HKD44,665,000 (2016: HKD21,240,000).

(iii) Price risk

The Group is exposed to equity securities price risk in respect of shares of CSG Holding Co., Ltd. ("CSG"), a company listed in the Shenzhen Stock Exchange held by the Group and classified as available-for-sale financial assets. The Group is not exposed to significant commodity price risk.

The table below summarises the impact of increase/decrease of share price of CSG on equity. The analysis is based on the assumptions that the share price of CSG had increased/decreased by 5% as of year end with all other factors remain unchanged:

	Impact on other components of equity, net of tax - increase/(decrease)	
	2017	*2016*
Share price		
– Increased by 5%	**11,357**	13,314
– Decreased by 5%	**(11,357)**	(13,314)

(All amounts in HKD thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. Deposits are mainly placed with high credit quality banks. No significant credit risk is expected as the banks in the PRC and Hong Kong are either state-owned banks, listed banks or large/medium sized commercial banks. Individual credit limits granted to customers would be set with reference to internal and external ratings as determined by the directors. The credit limits are reviewed periodically.

Except for the provision for impairment of trade receivables (Note 17), management does not expect any losses from non-performance by customers.

The Group does not have significant credit concentration risk. The carrying amounts of cash and cash equivalents, deposits in banks with original maturities over 3 months, restricted bank deposits and trade and other receivables substantially represent the Group's maximum exposure to credit risk.

(c) Liquidity risk

Cash flow forecast is performed in the operating entities of the Group. The Company monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its standby committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements – for example, currency restrictions.

The table below analyses the non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Over 5 years*	*Total*
At 31 December 2017					
Bank borrowings (including interest payments)	4,170,195	1,550,322	3,717,927	4,001,184	13,439,628
Corporate bonds (including interest payments)	121,022	121,022	3,578,884	—	3,820,928
Medium-term notes (including interest payments)	1,101,398	—	—	—	1,101,398
Trade and other payables (including interest payments and excluding other taxes payable and staff welfare benefit payable)	4,467,202	—	—	—	4,467,202
Other non-current liabilities (Including interest payments)	—	9,103,343	—	—	9,103,343
Derivative financial instruments	85,210	—	—	—	85,210

(All amounts in HKD thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Over 5 years*	*Total*
At 31 December 2016					
Bank borrowings (including interest payments)	1,380,540	353,456	2,012,684	1,515,184	5,261,864
Corporate bonds (including interest payments)	113,144	113,144	2,438,549	942,069	3,606,906
Senior notes (including interest payments)	2,377,404	—	—	—	2,377,404
Medium-term notes (including interest payments)	1,217,826	1,044,704	—	—	2,262,530
Other non-current liabilities (Including interest payments)	—	—	9,850,698	—	9,850,698
Trade and other payables (including interest payments and excluding other taxes payable and staff welfare benefit payable)	7,174,561	—	—	—	7,174,561

As at 31 December 2017, the Group had standby banking facilities of HKD56,734,478,000 (2016: HKD34,199,692,000) (Note 22).

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and protect interest for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount and payment schedule of dividends paid to shareholders, capital returned to shareholders, new shares issued, perpetual securities issued, or assets sold to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and bank balances. Total equity is calculated as "equity", as shown in the consolidated balance sheet.

The Group maintained a consistent strategy to maintain the gearing ratio within 120%. The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017	*2016*
Total borrowings	**15,825,315**	12,383,519
Less: cash and bank balances	**(7,335,027)**	(11,423,936)
Net debt	**8,490,288**	959,583
Total equity	**37,310,506**	28,435,643
Gearing ratio	**23%**	3%

(All amounts in HKD thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities that are measured at fair value.

	As at 31 December 2017			
	Level 1	***Level 2***	***Level 3***	***Total***
Assets				
Available-for-sale financial assets	**312,405**	**—**	**—**	**312,405**
Liabilities				
Derivative financial instruments	**—**	**85,210**	**—**	**85,210**

	As at 31 December 2016			
	Level 1	*Level 2*	*Level 3*	*Total*
Assets				
Available-for-sale financial assets	340,843	613,908	—	954,751
Derivative financial instruments	—	113,233	—	113,233

During the years ended 31 December 2016 and 2017, there were no transfers between Level 1 and Level 2.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments which are included in level 1 comprise shares of CSG classified as available-for-sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of foreign exchange forwards is set by using the forward exchange rate as of the day of settlement, and discounted based on the result.
- The fair value of the structured yield-enhancement products is calculated as the present value of the estimated future cash flows based on observable yield rate.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. As the future is inherently uncertain, actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Construction service revenue recognition relating to concession contracts

Income and expenses associated with construction services and upgrade services provided under the concession service arrangements are recognised in accordance with HKAS 11 using the percentage of completion method. Revenue generated by construction services rendered by the Group is measured at the fair value of the consideration received or receivable.

Due to the fact there was no real cash flow realised/realisable during the construction phase of the infrastructure during the Service Concessions, in order to determine the construction service revenue to be recognised during the reporting period, the directors of the Company made estimates of the respective amounts by making reference to the provision of project management services by the Group for construction of toll roads for respective PRC local governments without the corresponding grants of the toll road operating rights and entitlement to future toll revenues in return for management service fees. The directors of the Company have drawn an analogy of the construction of toll roads under the Service Concessions as if the Group were providing construction and project management services. Accordingly, construction service revenue under the respective Service Concessions is recognised at the total expected construction costs of the related toll roads plus management fees, computed at a percentage of the costs.

The directors of the Company estimated that the construction costs are close to the revenue, and thus the gross profit derived from the construction activities was insignificant.

(All amounts in HKD thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(b) *Amortisation of concession intangible assets*

The Group applied HK(IFRIC) - Interpretation 12 "Service Concession arrangements" and recognised concession intangible assets under the service concession arrangements and provides amortisation thereon.

Amortisation of concession intangible assets is provided under the Traffic Flow Amortisation Method. Adjustments may need to be made to the carrying amounts of concession intangible assets should there be a material difference between total projected traffic volume and the actual results.

The directors of the Company performed a periodic assessment of the total projected traffic volume. The Group appoints independent professional traffic consultants to perform independent professional traffic studies and make appropriate adjustment if there is a material difference between projected traffic volume and actual traffic volume.

(c) *Impairment of concession intangible assets*

The estimated recoverable amount is taken into account when considering the impairment of concession intangible assets.

When conducting impairment test of concession intangible assets, management forecasts future cash flows to determine the recoverable amount. Key assumptions used include the growth rate of traffic flows, toll rate, operating period, maintenance costs, and required rate of return. Given these assumptions, if the Group's management believes the recoverable amount will exceed the carrying amount after a thorough review, then no impairment is provided for concession intangible assets for the current year. The Group will continue to closely review the impairment of concession intangible assets, and make adjustments in the periods where there are indications that the relevant accounting estimates need to be adjusted.

(d) *Provisions for maintenance/resurfacing obligations*

The Group has contractual obligations under the Service Concessions to maintain the toll road infrastructure to a specified level of serviceability. These obligations to maintain or restore the infrastructure, except for upgrade services, are to be recognised and measured as a provision.

The expenditures expected to be required to settle the obligations at the balance sheet date is determined based on the number of major maintenance and resurfacing to be undertaken throughout the allowed operating periods of each toll roads operated by the Group under the Service Concessions and the expected costs to be incurred for each event.

The expected costs for maintenance and resurfacing and the timing of such events to take place involve estimates made by the directors of the Company, which were based on the Group's resurfacing plan and historical costs incurred for similar activities. The costs are then discounted to the present value based on a pre-tax discount rate estimated by the director of the Company which reflects the time value of money and the risks specific to the obligation.

If the expected expenditures, resurfacing plan and discount rate were different from management's current estimates, the change in provision for maintenance/resurfacing is required to be accounted for prospectively.

(e) *Income tax and deferred tax*

The Group is subject to income taxes mainly in the PRC. Since the ultimate tax determination for relevant transactions and events arising from ordinary course of business might be uncertain. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(e) Income tax and deferred tax (continued)

The Group recognises deferred tax assets based on estimates that it is probable to generate enough taxable incomes in the foreseeable future that the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgments and estimations about the timing and the amount of taxable incomes of the company who has tax loss. Where the final outcome of timing and amount is different from that initially estimated, such differences will impact the current income taxes and deferred tax assets in the period in which such determination is made.

(f) Fair value estimation of the identifiable assets and liabilities acquired

On 15 June 2017, the Group completed the acquisition of 100% equity interest in Hunan Yichang Expressway Development Company Limited ("Yichang Company"). Details of the business combination information are set out in Note 38.

The Group adopted valuation technique to assess the fair value of identifiable assets and liabilities of Yichang Company on the acquisition date by reference to the independent valuer's valuation report. Major assets of Yichang Company at the acquisition date were concession intangible assets, property, plant and equipment and cash and cash equivalents. The fair values of cash and cash equivalents and property, plant and equipment were assessed to approximate their respective carrying amounts, while the fair value of concession intangible assets were determined using income approach in which the discount rate 8.58% was applied as key assumption.

On 6 June 2017, the Group completed the acquisition of 20% equity interest in Derun Company and there was significant influence on the financial, production and operation decisions. Therefore, Derun Company is an associate of the Group and is accounted for using the equity method.

The Group adopted valuation technique to assess the fair value of identifiable assets and liabilities of Derun Company on the completion date by reference to the independent valuer's valuation report in which the market comparison approach was adopted. The key estimations were no material changes in the existing fiscal or economics conditions, which might adversely affect the business of Derun Company.

4.2 Critical judgements in applying accounting policies

(a) Joint arrangements

The Group holds 38%-50% of the voting rights of its joint arrangements. Significant judgements are required in assessing whether the Group has joint control over these arrangements. The directors of the Company consider that the Group has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities.

5. SEGMENT INFORMATION

The Group's operations are organised in two main business segments:

– Toll roads; and

– Logistic business.

Head office functions include corporate management functions and investment and financial activities of the Group. It also includes one-off and non-recurring activities of the Group.

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

(All amounts in HKD thousands unless otherwise stated)

5. SEGMENT INFORMATION *(continued)*

Toll roads include development, operation and management of toll highway; logistic business includes: (i) logistic parks which mainly include the construction, operation and management of logistic centres and integrated logistics hubs; (ii) logistic services which include the provision of third party logistic services, logistic information services and financial services to customers; (iii) port and related services.

The Board assesses the performance of the operating segments based on a measure of profit for the year.

The segment revenue and results presented to the board of directors, the chief operating decision-maker are as follows:

For the year ended 31 December 2017

	Toll roads	Logistic business				Head Office functions	Total
		Logistic parks	Logistic services	Port and related service[b]	Sub-total		
Revenue	7,110,588[a]	564,021	1,045,553	967,768	2,577,342	18,598	9,706,528
Operating profit	2,893,563	159,553	51,138	97,038	307,729	2,385,742	5,587,034
Share of profit/(loss) of joint ventures	8,194	12,215	–	–	12,215	(1,046)	19,363
Share of profit/(loss) of associates	563,108	(375)	5,990	–	5,615	800,262	1,368,985
Finance income	48,604	5,167	4,901	730	10,798	54,191	113,593
Finance costs	(1,015,481)	(15,954)	(1,103)	(2,049)	(19,106)	132,554	(902,033)
Profit before income tax	2,497,988	160,606	60,926	95,719	317,251	3,371,703	6,186,942
Income tax expense	(500,185)	(34,102)	(17,077)	(10,146)	(61,325)	(868,940)	(1,430,450)
Profit for the year	1,997,803	126,504	43,849	85,573	255,926	2,502,763	4,756,492
Non-controlling interests	(965,457)	4,725	(5,592)	(20,358)	(21,225)	71,966	(914,716)
Profit attributable to ordinary shareholders of the Company	1,032,346	131,229	38,257	65,215	234,701	2,574,729	3,841,776
Depreciation and amortisation	1,718,442	91,753	29,043	58,761	179,557	37,871	1,935,870
Capital expenditure							
– Additions in property, plant and equipment, construction in progress, land use rights and intangible assets	997,479	262,554	30,758	9,641	302,953	593,825	1,894,257
– Additions in property, plant and equipment, construction in progress, land use rights, and intangible assets arising from acquisition of subsidiaries	3,894,966	–	–	–	–	–	3,894,966
– Additions in interests in associates	5,010,306	–	–	1,157	1,157	115,741	5,127,204

(All amounts in HKD thousands unless otherwise stated)

5. SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2016

	Toll roads	Logistic business				Head Office functions	Total
		Logistic parks	Logistic services	Port and related service[b]	Sub-total		
Revenue	6,056,504[a]	571,880	629,701	529,095	1,730,676	–	7,787,180
Operating profit	2,548,648	165,517	36,208	84,809	286,534	690,085	3,525,267
Share of profit/(loss) of joint ventures	29,136	15,625	(28)	–	15,597	(2,045)	42,688
Share of profit/(loss) of associates	299,197	(385)	6,290	–	5,905	877,359	1,182,461
Finance income	124,953	1,595	6,274	986	8,855	61,268	195,076
Finance costs	(924,711)	(11,717)	(801)	(7,214)	(19,732)	(246,244)	(1,190,687)
Profit before income tax	2,077,223	170,635	47,943	78,581	297,159	1,380,423	3,754,805
Income tax expense	(436,782)	(26,849)	(7,127)	(9,435)	(43,411)	(357,430)	(837,623)
Profit for the year	1,640,441	143,786	40,816	69,146	253,748	1,022,993	2,917,182
Non-controlling interests	(794,253)	590	(2,544)	(19,303)	(21,257)	14,023	(801,487)
Profit attributable to ordinary shareholders of the Company	846,188	144,376	38,272	49,843	232,491	1,037,016	2,115,695
Depreciation and amortisation	1,495,089	81,864	10,060	51,651	143,575	34,590	1,673,254
Capital expenditure							
– Additions in property, plant and equipment, construction in progress, land use rights and intangible assets	219,032	1,416,375	15,980	199,079	1,631,434	1,492,874	3,343,340
– Additions in interests in associates	79,805	–	–	–	–	653,928	733,733

(a) The revenue from toll roads included construction service revenue under service concession arrangements of HKD862,303,000 for the year (2016: HKD146,487,000).

(b) Port and related services included operation and management of wharf and logistic centres at Xiba Port in Nanjing, and port related supply chain management service business. The revenue and profit before income tax from port related services were HKD699,295,000 and HKD25,112,000 respectively for the year ended 31 December 2017 (2016: HKD322,868,000 and HKD10,655,000).

(c) The Group has a large number of customers, none of whom contributed 10% or more of the Group's revenue.

(d) All revenues are derived from external customers located in the PRC. The Group's non-current assets, other than financial instruments and deferred tax assets are mainly located in the PRC, revenues derived from and non-current assets located in other countries and regions are not material.

(All amounts in HKD thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	*Leasehold improvements*	*Motor vehicles*	*Furniture, fixtures, and equipment*	*Loading equipment and facilities in port*	*Total*
Year ended 31 December 2016						
Opening net book value	2,089,370	6,027	46,383	858,628	962,087	3,962,495
Disposal of subsidiaries	(921)	–	(3,589)	(31,347)	–	(35,857)
Transfer from construction in progress (Note 8)	303,778	–	–	38,401	288,950	631,129
Additions	219,158	4,156	10,827	60,310	954	295,405
Disposals	(619)	–	(1,045)	(1,683)	–	(3,347)
Transfer to assets of disposal group classified as held for sale	(7,261)	–	–	–	–	(7,261)
Exchange difference	(142,003)	(455)	(2,718)	(51,998)	(72,661)	(269,835)
Depreciation	(106,527)	(2,628)	(13,350)	(169,645)	(46,354)	(338,504)
Closing net book value	2,354,975	7,100	36,508	702,666	1,132,976	4,234,225
At 31 December 2016						
Costs	2,989,620	16,423	104,641	1,852,506	1,334,390	6,297,580
Accumulated depreciation and impairment	(634,645)	(9,323)	(68,133)	(1,149,840)	(201,414)	(2,063,355)
Net book value	2,354,975	7,100	36,508	702,666	1,132,976	4,234,225
Year ended 31 December 2017						
Opening net book value	**2,354,975**	**7,100**	**36,508**	**702,666**	**1,132,976**	**4,234,225**
Disposal of a subsidiary	**(96,285)**	**–**	**(1,417)**	**(18,825)**	**–**	**(116,527)**
Business Combination (Note 38)	**24,520**	**–**	**1,629**	**46,878**	**–**	**73,027**
Transfer from construction in progress (Note 8)	**740,906**	**–**	**3**	**37,663**	**59,994**	**838,566**
Additions	**10,993**	**254**	**19,724**	**115,430**	**2,951**	**149,352**
Disposals	**(431)**	**–**	**(4,184)**	**(21,447)**	**(471)**	**(26,533)**
Impairment (Note 28)	**(89,342)**	**–**	**–**	**–**	**–**	**(89,342)**
Exchange difference	**162,223**	**1,082**	**2,751**	**48,831**	**79,110**	**293,997**
Depreciation	**(119,652)**	**(644)**	**(7,371)**	**(166,485)**	**(54,559)**	**(348,711)**
Closing net book value	**2,987,907**	**7,792**	**47,643**	**744,711**	**1,220,001**	**5,008,054**
At 31 December 2017						
Costs	**3,797,528**	**16,677**	**123,606**	**1,905,846**	**1,491,503**	**7,335,160**
Accumulated depreciation and impairment	**(809,621)**	**(8,885)**	**(75,963)**	**(1,161,135)**	**(271,502)**	**(2,327,106)**
Net book value	**2,987,907**	**7,792**	**47,643**	**744,711**	**1,220,001**	**5,008,054**

Property ownership certificates for buildings with net book value of HKD461,287,000 (2016: HKD435,648,000) are not procured. Due to the unique feature of the Group's operation of toll roads, the affiliated buildings and structures should be reverted to the government when the approved operating periods expire. Thus, the Group does not have a plan of procuring the property ownership certificates.

(All amounts in HKD thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The analysis of carrying amount of land and buildings is as follows:

	2017	*2016*
In Hong Kong		
Medium-term leases (10-50 years)	**61,919**	64,054
In the PRC		
Medium-term leases (10-50 years)	**2,462,910**	1,853,279
Long-term leases (over 50 years)	**1,791**	1,994
Leases without certificates	**461,287**	435,648
	2,925,988	2,290,921
Representing:		
Land and buildings carried at cost	**2,987,907**	2,354,975

7. LAND USE RIGHTS

	2017	*2016*
Beginning of year	**1,784,514**	977,827
Additions	**154,495**	698,812
Disposal of a subsidiary	**(13,110)**	(31,556)
Transfer from other non-current assets	**—**	203,000
Transfer (to)/from inventories	**(45,761)**	73,714
Amortisation	**(46,659)**	(37,086)
Exchange difference	**125,554**	(100,197)
End of year	**1,959,033**	1,784,514

The analysis of carrying amount of leasehold land is as follows:

	2017	*2016*
In the PRC		
Medium-term leases (10-50 years)	**1,952,058**	1,777,476
Long-term leases (over 50 years)	**1,699**	4,161
Leases with unspecified periods	**5,276**	2,877
	1,959,033	1,784,514

(All amounts in HKD thousands unless otherwise stated)

8. CONSTRUCTION IN PROGRESS

	2017	2016
Beginning of year	2,056,347	768,314
Acquisition of subsidiaries (Note 38)	1,185	—
Disposal of subsidiaries	—	(5,243)
Additions	646,521	2,201,474
Transfer to property, plant and equipment (Note 6)	(838,566)	(631,129)
Transfer to inventory	—	(117,414)
Transfer to intangible asset (Note 9)	—	(5,808)
Transfer to assets of disposal group classified as held for sale	—	(38,255)
Other transfers	(21,211)	(16,919)
Exchange difference	127,875	(98,673)
End of year	1,972,151	2,056,347

9. INTANGIBLE ASSETS

Concession intangible assets

	2017	2016
Cost	36,965,645	29,327,597
Accumulated amortisation and impairment	(10,875,763)	(8,040,716)
Net book value	26,089,882	21,286,881

	2017	2016
Opening net book value	21,286,881	23,831,721
Acquisition of subsidiaries (Note 38)	3,820,754	—
Additions	943,889	147,649
Transfer from construction in progress (Note 8)	—	5,808
Disposals	(9,669)	—
Amortisation	(1,540,500)	(1,297,664)
Exchange difference	1,588,527	(1,400,633)
Closing net book value	26,089,882	21,286,881

9. INTANGIBLE ASSETS *(continued)*

Concession intangible assets *(continued)*

(i) Concession intangible assets represent the rights to operate the respective toll roads granted by the relevant local government authorities in the PRC to the Group. The remaining periods of rights to operate the respective toll roads are from 5 to 18 years. According to the relevant governments' approval documents and the relevant regulations, the Group is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment. It is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected and collectible during the operating periods are attributable to the Group. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any considerations payable to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options. Amortisation of concession intangible assets has all been charged in the consolidated income statement within "Cost of sales".

(ii) The operating rights of Guangdong Qinglian Expressway Development Company Limited ("Qinglian Expressway") and Yichang Company was included in the concession intangible assets with net book value of HKD8,335,700,000 (2016:HKD8,056,719,000) and HKD3,629,925,000 (2016:Nil), which was pledged for secured borrowings totaling HKD2,128,730,000 (2016:HKD2,100,931,000) and HKD1,549,388,000 (2016:Nil).

The operating rights of Shenzhen Outer Ring Expressway Investment Co., Ltd. ("Outer Ring Expressway") and Shuiguan Expressway was included in the concession intangible assets with net book value of HKD1,106,214,000 (2016:Nil) and HKD4,473,675,000 (2016:HKD4,555,210,000) respectively, which was pledged for secured borrowings totaling HKD1,377,647,000 (2016:Nil) and HKD1,038,682,000 (2016:nil) respectively.

10. SUBSIDIARIES

(a) A list of the principal subsidiaries as at 31 December 2017 is disclosed in Note 40.

(b) Material non-controlling interests

The total non-controlling interests as at 31 December 2017 were HKD11,062,354,000 (2016: HKD9,801,512,000), of which HKD7,948,814,000 (2016: HKD6,967,059,000) was attributable to other shareholders of Shenzhen Expressway. The non-controlling interests in respect of other subsidiaries are not material.

Significant restrictions

Most of the cash and deposits held in banks of Shenzhen Expressway were held in the PRC and were subject to local exchange control regulations. These local exchange control regulations provide for restrictions on repatriating capital from the PRC, other than through dividends.

Set out below are the summarised financial information for Shenzhen Expressway that has non-controlling interests material to the Group.

(All amounts in HKD thousands unless otherwise stated)

10. SUBSIDIARIES *(continued)*

(b) Material non-controlling interests *(continued)*

Summarised balance sheet

	2017	2016
Current		
Assets	4,700,998	8,929,159
Liabilities	(8,141,393)	(5,340,092)
Total current net (liabilities)/assets	(3,440,395)	3,589,067
Non-current		
Assets	40,140,541	27,296,410
Liabilities	(17,797,366)	(14,405,137)
Total non-current net assets	22,343,175	12,891,273
Net assets	18,902,780	16,480,340
Net assets attributable to ordinary shareholders	16,300,913	14,186,352
Non-controlling interests	7,948,814	6,967,059

Summarised income statement

	2017	2016
Revenue	6,456,250	5,415,885
Profit for the year	1,780,953	1,501,399
Other comprehensive (loss)/income	(8,170)	1,041
Total comprehensive income	1,772,783	1,502,440
Total comprehensive income allocated to non-controlling interests	138,605	170,990
Dividends paid to non-controlling interests	211,120	291,622

Summarised cash flows

	2017	2016
Net cash generated from operating activities	3,079,521	2,472,515
Net cash used in investing activities	(8,091,563)	(2,940,949)
Net cash generated from/(used in) financing activities	2,052,228	(1,778,212)
Net decrease in cash and cash equivalents	(2,959,814)	(2,246,646)

The amounts above are stated before inter-company eliminations.

(All amounts in HKD thousands unless otherwise stated)

11. INTERESTS IN ASSOCIATES

	2017	2016
Beginning of year	7,490,060	5,673,459
Additions (Note (b))	5,127,204	733,733
Transfer from other non-current assets	—	692,850
Transfer from investments in subsidiary	—	50,863
Share of profit of associates	1,368,985	1,182,461
Share of other comprehensive income/(loss) of associates	74,539	(8,267)
Dividends received	(589,250)	(363,321)
Exchange difference	813,349	(471,718)
End of year	14,284,887	7,490,060

The year-end balance comprises the following:

	2017	2016
Unlisted investments		
Share of net assets, other than goodwill	11,524,006	6,541,785
Goodwill on acquisition (Note (c))	2,760,881	948,275
	14,284,887	7,490,060

(All amounts in HKD thousands unless otherwise stated)

11. INTERESTS IN ASSOCIATES *(continued)*

(a) The major associates as listed below are held indirectly by the Company, their place of business and country of incorporation is the PRC. They are accounted for using equity method.

Name	*% Ownership interest in*		*Business nature*
	2017	2016	
Shenzhen Airlines Limited ("Shenzhen Airlines") (Note (d))	**49%**	49%	Aviation services
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company")	**25%**	25%	Construction, operation and management of highways
Guangzhou Western Second Ring Expressway Company Limited	**25%**	25%	Construction, operation and management of highways
Shenzhen Huayu Expressway Investment Company Limited	**40%**	40%	Development, operation and management of highways
Nanjing Yangzi River Third Bridge Company Limited	**25%**	25%	Construction, operation and management of bridges
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	**25%**	25%	Construction, operation and management of highways
Yunfu Guangyun Expressway Company Limited	**30%**	30%	Construction, operation and management of highways
Shenzhen South Electronics Port Co., Ltd.	**40%**	40%	Electronic customs services
Bank of Guizhou Company Limited	**3.78%**	4.41%	Deposit and loan business; domestic clearing, bills acceptance and discounting; issuance, redemption and underwriting of various types of bonds; other businesses as approved by the banking regulatory authorities and related departments
Shenzhen International Qianhai Real Estate (Shenzhen) Co., Ltd.	**50%**	50%	Real estate development
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company")	**24%**	24%	Project management consulting, engineering consulting and sales of engineering materials
Shenzhen Zhongneng Electronic Commerce Company Limited	**10%**	—	Software and information technology services
Shenzhen International Huazhang II Logistics Industry Investment Partnership Enterprise	**40%**	—	Venture capital investment
Derun Company (Note (d))	**20%**	—	Environment management and resources recovery

(All amounts in HKD thousands unless otherwise stated)

11. INTERESTS IN ASSOCIATES *(continued)*

(b) During the year, the Group entered into an agreement with the shareholders of Derun Company to acquire 20% equity interest in Derun Company for a consideration of HKD5,010,306,000, which was completed on 6 June 2017. As the Group has significant influence in Derun Company's financing and operation policy decision, Derun Company was recognized as an associate and accounted for under the equity method.

(c) The balance represents the goodwill arising from the acquisition of equity interests in Jiangzhong Company, Yangmao Company, Consulting Company, Shenzhen Airlines and Derun Company.

(d) In the opinion of the directors, Shenzhen Airlines and Derun Company are material associates to the Group. Shenzhen Airlines and Derun Company are private companies and there are no quoted market prices available for their shares. Set out below are the summarised financial information for Shenzhen Airlines and Derun Company which are accounted for using the equity method.

Summarised balance sheet

	Shenzhen Airlines		*Derun Company*
	2017	*2016*	***2017***
Current			
Assets	**4,024,436**	2,603,476	**13,751,365**
Liabilities	**(30,063,748)**	(21,990,345)	**(7,697,622)**
Total current net (liabilities)/assets	**(26,039,312)**	(19,386,869)	**6,053,743**
Non-current			
Assets	**57,370,789**	50,566,055	**28,745,073**
Liabilities	**(21,664,554)**	(23,535,462)	**(6,163,924)**
Total non-current net assets	**35,706,235**	27,030,593	**22,581,149**
Non-controlling interests	**(118,423)**	(104,781)	**(10,941,822)**
Net assets	**9,548,500**	7,538,943	**17,693,070**

(All amounts in HKD thousands unless otherwise stated)

11. INTERESTS IN ASSOCIATES *(continued)*

(d) *(continued)*

Summarised statement of comprehensive income

	Shenzhen Airlines		Derun Company[i]
	2017	2016	**2017**
Revenue	**32,427,763**	30,193,822	**5,772,810**
Profit for the year	**1,634,497**	1,790,558	**743,413**
Other comprehensive income/(loss)	**123,125**	(11,004)	**14,195**
Total comprehensive income	**1,757,622**	1,779,554	**757,608**
Dividends received from the associate	**155,904**	130,006	**138,426**

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

Reconciliation of the summarised financial information presented to the carrying amount of their interests in the associates.

Summarised financial information

	Shenzhen Airlines		Derun Company[i]
	2017	2016	**2017**
Opening net assets	**7,538,943**	6,511,571	**17,012,148**
Profit for the year	**1,634,497**	1,790,558	**743,413**
Other comprehensive income/(loss)	**123,125**	(11,004)	**14,195**
Dividend paid	**(318,171)**	(265,318)	**(692,130)**
Currency translation differences	**570,106**	(486,864)	**615,444**
Closing net assets	**9,548,500**	7,538,943	**17,693,070**
Interest in the associate(ii)	**4,678,765**	3,694,082	**3,538,614**
Goodwill	**922,804**	862,753	**1,746,602**
Carrying value	**5,601,569**	4,556,835	**5,285,216**

(i) The period of Derun Company's financial information is from 31 May 2017 (date of acquisition) to 31 December 2017.

(ii) The Group shares 49% and 20% of equity interests of Shenzhen Airlines and Derun Company respectively.

(All amounts in HKD thousands unless otherwise stated)

11. INTERESTS IN ASSOCIATES *(continued)*

(e) Summarised financial information for individually immaterial associates is as follows:

	2017	*2016*
Total carrying amount of individually immaterial associates in consolidated financial statements	**3,398,102**	2,933,225
Individually immaterial associates' results attributed to the Group:		
Profit for the year	**419,399**	305,088
Other comprehensive income/(loss)	**11,369**	(2,875)
Total comprehensive income	**430,768**	302,213

(f) There are no significant contingent liabilities relating to the Group's interests in the associates.

12. INTERESTS IN JOINT VENTURES

	2017	*2016*
Beginning of year	**260,234**	281,325
Additions	**166,667**	—
Disposal	**—**	(3,322)
Share of profit of joint ventures	**19,363**	42,688
Dividends received	**(27,015)**	(40,483)
Transfer to subsidiaries	**(184,025)**	—
Exchange difference	**13,524**	(19,974)
End of year	**248,748**	260,234

The year-end balance comprises the following:

	2017	*2016*
Unlisted investments		
Share of net assets	**248,748**	16,904
Advances to joint ventures	**—**	243,330
	248,748	260,234

(All amounts in HKD thousands unless otherwise stated)

12. INTERESTS IN JOINT VENTURES *(continued)*

(a) The major joint ventures as listed below are held indirectly by the Company, their place of business and country of incorporation is the PRC. They are accounted for using equity method.

Name	*% Ownership interest in*		*Business nature*
	2017	2016	
Shenzhen Airport International Express Supervision Center Co., Ltd.	**50%**	50%	Equipment services for customs monitoring
Shenzhen Longzhuo Logistics Co., Ltd.	**50%**	50%	Warehousing services
Shenzhen Timetop Smart Logistics Co., Ltd.	**40%**	40%	Logistics management services
Shenzhen International Huazhang Logistics Industry Private Equity Funds Management Co., Ltd.	**38%**	38%	Fund management
Shenzhen International Financial Leasing Co., Ltd.	**48%**	—	Financial leasing services

All joint ventures are private company and there are no quoted market prices available for their shares.

(b) In the opinion of the directors, none of the joint ventures is material to the Group. Summarised financial information for individually immaterial joint ventures is as follows:

	2017	*2016*
Total carrying amount of individually immaterial joint ventures in consolidated financial statements	**248,748**	260,234
Individually immaterial joint ventures' results attributed to the Group:		
Profit for the year	**19,363**	42,688
Total comprehensive income	**19,363**	42,688

(c) There are no significant contingent liabilities and commitments related to the Group's interests in the joint ventures.

(All amounts in HKD thousands unless otherwise stated)

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	*2016*
Beginning of year	**1,059,104**	1,215,450
Additions	**72,994**	654,947
Net change in fair value	**(50,568)**	(62,928)
Disposals	**(624,078)**	(672,062)
Exchange difference	**41,865**	(76,303)
End of year	**499,317**	1,059,104
Less: non-current portion	**(186,912)**	(104,353)
Current portion	**312,405**	954,751
Available-for-sale financial assets, all denominated in RMB, include the following:		
Listed securities in the PRC, at fair value (Note (a) and Note 3.3)	**312,405**	340,843
Unlisted yield-enhancement products: at fair value (Note 3.3)	**–**	613,908
Unlisted equity investments: at cost less impairment		
– Cost (Note (b))	**211,007**	128,448
– Provision for impairment	**(24,095)**	(24,095)
	186,912	104,353
	499,317	1,059,104

(a) As at 31 December 2017, listed equity investments stated at market price represented 1.3% (2016: 1.30%) equity interest in CSG.

(b) The Group's unlisted equity investments do not have quoted market prices in an active market and their fair values cannot be reliably measured.

14. OTHER NON-CURRENT ASSETS

As at 31 December 2017, other non-current assets mainly represented prepayments for acquisition of a subsidiary (Note 39(c)), prepayments for land use rights, project funds and other long-term receivables.

(All amounts in HKD thousands unless otherwise stated)

15. INVENTORIES

	2017	2016
In the PRC		
Land in Qianhai held for future development	**1,634,830**	1,506,024
Other land held for future development	**5,226,047**	58,298
Land and properties under development for sale	**251,595**	652,466
Completed properties for sale	**682,015**	560,974
Others	**51,008**	141,720
Impairment (Note 28)	**(251,611)**	—
	7,593,884	2,919,482

The analysis of the amount of inventories recognised as impairment is as follows:

	2017	2016
Beginning of year	**—**	—
Additions	**251,611**	—
End of year	**251,611**	—

The analysis of carrying amount of leasehold land included in land and properties development in abovementioned inventories is as follows:

	2017	2016
In the PRC		
Medium-term leases (10-50 years)	**1,739,832**	1,601,899
Long-term leases (over 50 years)	**656,913**	585,980
	2,396,745	2,187,879

(All amounts in HKD thousands unless otherwise stated)

16. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

In June 2015, Shenzhen International United Land Co., Ltd. ("United Land Company"), a subsidiary of the Group, entered into various land transfer agreements (the "Land Transfer Agreements") with Longhua Management Bureau under Urban Planning Land and Resources Commission of the Shenzhen Municipal to acquire the land use rights of the Meilin checkpoint land parcels at a total consideration of RMB3,566,700,000 (equivalent to HKD3,981,136,000). Pursuant to the Land Transfer Agreements, United Land Company paid 30% of the total land premium by 30 June 2015 and the remaining land premium was paid before 23 June 2016. Prior to the above transaction, the Group had possessed these land use rights for logistic business operation. The directors of Company had approved a plan to dispose of not less than 50% equity interest in United Land Company to third-party real estate developers within one year. As such, as at 31 December 2016, the related group of assets which mainly includes the prepayment for land premium of HKD3,981,136,000, the carrying values of the original land use rights of HKD49,280,000 and the buildings and fixtures attached to the land use rights of HKD324,000,000, were reclassified to assets held for sale.

In October 2017, the directors of the Group decided to rescind the original plan of disposal of not less than 50% equity for logistic business operation. Meanwhile, United Land Company entered into a construction agreement with a third party. According to the agreement, the third party was responsible for the whole process of the project development, construction management and sales management. As such, the aforementioned related group of assets were no longer reclassified as assets held for sale, and the assets and liabilities of United Land Company were consolidated in the consolidated balance sheet of the Group in 2017.

17. TRADE AND OTHER RECEIVABLES

	2017	*2016*
Trade receivables (Note (a))	**991,527**	1,220,760
Less: Provision for impairment (Note 29)	**(25,762)**	(1,289)
Trade receivables - net	**965,765**	1,219,471
Other receivables and prepayments (Note (b))	**1,125,809**	1,023,257
	2,091,574	2,242,728

(a) The settlement period of the toll revenue from toll road operations is normally within a month due to the implementation of unified toll collection policy on expressways of the Group in the PRC. Trade receivables other than toll revenue generally have credit terms of 30 to 120 days. As at 31 December 2017 and 2016, the ageing analysis of the trade receivables of the Group based on revenue recognition date was as follows:

	2017	*2016*
0 - 90 days	**847,057**	607,419
91 - 180 days	**31,701**	98,829
181 - 365 days	**29,413**	29,231
Over 365 days (i)	**83,356**	485,281
	991,527	1,220,760

(i) Trade receivables due over 365 days mainly comprised the amount of HKD66,404,000 (2016: HKD146,955,000) arising from the Group's development and management of certain toll road projects administrated for Shenzhen Traffic and Transportation Committee (the "SZ Transportation Committee").

(All amounts in HKD thousands unless otherwise stated)

17. TRADE AND OTHER RECEIVABLES *(continued)*

(a) *(continued)*

As at 31 December 2017, trade receivables of HKD25,762,000 (2016: HKD1,289,000) were fully impaired. These individually impaired trade receivables mainly relate to customers which are in unexpected financial difficulties.

The other classes within trade and other receivables do not contain impaired assets. There is no material default history for amounts not past due.

The creation and release of provision for impaired receivables has been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recoveries of additional cash.

The carrying amounts of the Group's trade and other receivables are mainly denominated in RMB. As at 31 December 2017, the fair value of the trade and other receivables approximated their carrying values.

Credit quality of trade receivables neither past due nor impaired can be assessed by reference to historical information about counterparty's default rates:

	2017	2016
Counterparties		
– Government authorities in the PRC	**153,966**	502,042
– Existing customers with no defaults in the past	**643,206**	446,876
– New customers	**162,201**	269,546
	959,373	1,218,464

(b) The amounts mainly included: (i) prepayment for land use rights and guarantee deposit of land use rights of HKD350,421,000 (2016: HKD263,871,000); (ii) advance of construction costs and construction receivables of HKD272,560,000 (2016: HKD300,389,000); (iii) receivables from associate of HKD101,584,000 (2016: HKD58,042,000); (iv) receivables of supplier's security and prepayments of freight of HKD46,306,000 (2016:HKD32,027,000); (v) receivables of prepayment of tax related to Meiguan expressway compensation from government of HKD32,359,000 (2016: Nil).

(All amounts in HKD thousands unless otherwise stated)

18. CASH AND CASH EQUIVALENTS

	2017	2016
Cash at bank and in hand	**7,335,027**	11,423,936
Less: Restricted bank deposits (Note (a))	**(1,054,193)**	(1,629,804)
Less: Deposits in banks with original maturities over 3 months	**(813,956)**	(1,540,195)
Cash and cash equivalents	**5,466,878**	8,253,937

(a) As at 31 December 2017, the restricted bank deposits mainly represented restricted project funds for construction management.

(b) Cash and cash equivalents can be withdrawn as requested. The cash at bank and in hand were denominated in the following currencies:

	2017	2016
RMB	**6,327,747**	10,423,701
HKD	**76,326**	29,969
USD	**925,540**	970,030
Other currencies	**5,414**	236
	7,335,027	11,423,936

19. SHARE CAPITAL AND SHARE PREMIUM

	Number of issued shares (share)	Ordinary share capital	Share premium	Total
At 1 January 2016	1,899,019,417	1,899,019	5,726,509	7,625,528
Employee share option				
– proceeds from shares issued	1,152,000	1,152	10,828	11,980
– value of employee services	—	—	23,942	23,942
Issue of scrip shares as dividend	57,517,897	57,518	604,634	662,152
At 31 December 2016	1,957,689,314	1,957,689	6,365,913	8,323,602
Employee share option				
– proceeds from shares issued	**15,755,597**	**15,756**	**127,701**	**143,457**
– value of employee services	**—**	**—**	**29,358**	**29,358**
Issue of scrip shares as dividend (Note 34)	**55,338,274**	**55,338**	**607,907**	**663,245**
At 31 December 2017	**2,028,783,185**	**2,028,783**	**7,130,879**	**9,159,662**

(a) Authorised and issued shares

As at 31 December 2017, the total authorised number of ordinary shares was 3,000 million shares (2016: 3,000 million shares) with par value of HKD1.00 per share (2016: HKD1.00 per share). All issued shares are fully paid.

19. SHARE CAPITAL AND SHARE PREMIUM *(continued)*

(b) Share options

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Average Exercise price (HKD per share)	Number of share options (thousands)	Average Exercise price (HKD per share)	Number of share options (thousands)
At 1 January	**10.642**	**36,598**	10.40	31,780
Granted	**12.628**	**34,770**	11.592	7,420
Exercised	**9.105**	**(15,756)**	10.40	(1,152)
Forfeited	**10.311**	**(1,744)**	10.40	(1,450)
Adjusted	**—**	**4,787**	—	—
At 31 December	**11.373**	**58,655**	10.642	36,598

The related weighted-average share price at the time of exercise was HKD14.45 (2016: HKD12.08) per share in 2017.

Share options outstanding at the end of the year have the following dates of maturity and exercise prices:

Date of maturity	Exercise price (HKD per share)	Number of share options (thousands)	
		2017	2016
28 January 2019 (Note (i))	8.919	**17,296**	29,178
28 January 2019 (Note (ii))	11.195	**6,589**	7,420
25 May 2022 (Note (iii))	12.628	**34,770**	—
		58,655	36,598

(i) On 29 January 2014, 32,880,000 share options (the "2014 Share Options") with an exercise price of HKD10.40 per share were granted to certain directors of the Company and to selected employees of the Group. The options are exercisable starting two years from the grant date: 40% of the 2014 Share Options was vested on the date which is 24 months after the grant date; another 30% of the 2014 Share Options granted will be vested on the date which is 36 months after the grant date, and the remaining 30% of the 2014 Share Options will be vested on the date which is 48 months after the grant date. The vesting of the 2014 Share Options is conditional, subject to the individual performance of respective grantees and the achievement of certain performance targets of the Group. During the year, 1,744,000 (2016: 1,450,000) of the 2014 Share Options were forfeited and 14,662,000 (2016: 1,152,000) of the 2014 Share Options were exercised.

On 23 June 2017, the Company adjusted the exercise price and number of 2014 Share Options outstanding according to the terms of the share option scheme and supplemental guidelines from the Stock Exchange. The exercise price of 2014 Share Options were adjusted to HKD8.919 per share and the number of share options were increased by 4,524,000.

19. SHARE CAPITAL AND SHARE PREMIUM *(continued)*

(b) Share options *(continued)*

(ii) On 22 June 2016, 7,420,000 share options (the "2016 Share Options") with an exercise price of HKD11.592 per share were granted to certain directors of the Company and selected employees of the Group. The exercise price of 2016 Share Options represents the average closing price for the five business days immediately preceding the date of grant. 40% of the share options granted is to be vested immediately, another 30% of the share options granted will be vested on 29 January 2017, and the remaining 30% of the share options granted will be vested on 29 January 2018. Vesting of the above mentioned share options in 2017 and 2018 is conditional upon the individual performance of respective grantees and the achievement of certain performance targets of the Group. During the year, none (2016: nil) of the 2016 Share Options were forfeited and 1,094,000 (2016: nil) of 2016 Share Options were exercised.

On 23 June 2017, the Company adjusted the exercise price and number of 2016 Share Options outstanding according to the terms of the share option scheme and supplemental guidelines from the Stock Exchange. The exercise price of 2016 Share Options were adjusted to HKD11.195 per share and the number of share options were increased by 263,000.

(iii) On 26 May 2017, 34,770,000 share options (the "2017 Share Options") with an exercise of HKD 12.628 per share were granted to certain directors of the Company and to selected employees of the group. The exercise price of 2017 Share Options represents the average closing price for the five business days immediately preceding the date of grant. 40% of the share options granted is to be vested on 26 May 2019, another 30% of the share options granted will be vested on 26 May 2020, and the remaining 30% of the share options granted will be vested on 26 May 2021. Vesting of the above mentioned share is conditional upon the individual performance of respective grantees and the achievement of certain performance targets of the Group.

The fair value of the 2017 Share Options as determined using the binominal model was HKD3.01 per option. The significant inputs used in the model were share price of HKD12.58 per share at grant date, exercise price shown above, volatility of 35.875%, dividend yield of 3.42%, an expected option life of 5 years and an annual risk-free interest rate of 0.945%. The volatility measured at the standard deviation of continuously compounded share returns in based on statistical analysis of daily share prices over the past 1 year.

(All amounts in HKD thousands unless otherwise stated)

20. OTHER RESERVES AND RETAINED EARNINGS

	Fair value reserve	*Reserve funds (Note (b))*	*Capital reserve*	*Goodwill reserve*	*Hedging reserve*	*Merger reserves*	*Revaluation surplus*	*Other reserves (Note (c))*	*Currency translation reserve*	*Contributed surplus (Note (a))*	*Other reserves sub-total*	*Retained earnings*	*Total*
At 1 January 2016	563,645	2,079,630	59,723	(159,583)	(1,483)	(4,082,110)	507,216	16,201	885,535	13,005	(118,221)	10,652,736	10,534,515
Profit attributable to ordinary shareholders of the company	–	–	–	–	–	–	–	–	–	–	–	2,115,695	2,115,695
Fair value losses on available-for-sale financial assets, net of tax	(47,196)	–	–	–	–	–	–	–	–	–	(47,196)	–	(47,196)
Reclassification of fair value gains to consolidated income statement upon disposal of available-for-sale financial assets, net of tax	(261,317)	–	–	–	–	–	–	–	–	–	(261,317)	–	(261,317)
Fair value gains on derivative financial instruments, net of tax	–	–	–	–	1,483	–	–	–	–	–	1,483	–	1,483
Share of other comprehensive loss of associates	–	–	–	–	–	–	–	(6,965)	–	–	(6,965)	–	(6,965)
Currency translation differences	(27,689)	–	–	–	–	–	–	–	(1,117,253)	–	(1,144,942)	–	(1,144,942)
Transfer to reserve	–	221,920	–	–	–	–	–	–	–	–	221,920	(221,920)	–
Dividend relating to 2015	–	–	–	–	–	–	–	–	–	–	–	(949,860)	(949,860)
Forfeiture of unclaimed dividends	–	–	–	–	–	–	–	–	–	–	–	69	69
Transactions with non-controlling interests	–	–	–	–	–	–	–	69,047	–	–	69,047	–	69,047
At 31 December 2016	227,443	2,301,550	59,723	(159,583)	–	(4,082,110)	507,216	78,283	(231,718)	13,005	(1,286,191)	11,596,720	10,310,529

	Fair value reserve	***Reserve funds (Note (b))***	***Capital reserve***	***Goodwill reserve***	***Hedging reserve***	***Merger reserves***	***Revaluation surplus***	***Other reserves (Note (c))***	***Currency translation reserve***	***Contributed surplus (Note (a))***	***Other reserves sub-total***	***Retained earnings***	***Total***
At 1 January 2017	**227,443**	**2,301,550**	**59,723**	**(159,583)**	**–**	**(4,082,110)**	**507,216**	**78,283**	**(231,718)**	**13,005**	**(1,286,191)**	**11,596,720**	**10,310,529**
Profit attributable to ordinary shareholders of the company	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,841,776**	**3,841,776**
Fair value losses on available-for-sale financial assets, net of tax	**(37,926)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(37,926)**	**–**	**(37,926)**
Share of other comprehensive loss of associates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**68,720**	**–**	**–**	**68,720**	**–**	**68,720**
Currency translation differences	**13,162**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,405,628**	**–**	**1,418,790**	**–**	**1,418,790**
Transfer to reserve	**–**	**602,632**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**602,632**	**(602,632)**	**–**
Dividend relating to 2016 (Note 34)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(841,938)**	**(841,938)**
Forfeiture of unclaimed dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**92**	**92**
Transactions with non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,492)**	**–**	**–**	**(2,492)**	**–**	**(2,492)**
At 31 December 2017	**202,679**	**2,904,182**	**59,723**	**(159,583)**	**–**	**(4,082,110)**	**507,216**	**144,511**	**1,173,910**	**13,005**	**763,533**	**13,994,018**	**14,757,551**

20. OTHER RESERVES AND RETAINED EARNINGS *(continued)*

(a) The contributed surplus of the Group represents the difference between the nominal value of the shares of the former group holding company, acquired pursuant to the Group reorganisation on 9 January 1990, over the nominal value of the Company's shares issued in exchange thereof.

(b) In accordance with the PRC regulations, certain companies of the Group in the PRC are required to transfer part of their profits after taxation to various reserve funds, which are non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies, in accordance with their joint venture agreements and/or articles of association.

(c) Other reserves mainly represented the differences between the considerations paid/received and the relevant carrying value of net assets of the subsidiaries acquired/disposed of for the transactions with certain non-controlling interests.

21. PERPETUAL SECURITIES

On 29 November 2017 ("Issue Date"), the Company issued USD denominated senior perpetual capital security ("Perpetual Securities") with an aggregate principal amount of USD300,000,000 (approximately HKD2,340,300,000). The Perpetual Securities were issued at par value with initial interest rate of 3.95%. The Perpetual Securities were recorded as equity, after netting off related issuance costs of approximately USD1,200,000 (approximately HKD9,361,000).

The Perpetual Securities confer to the holders a right to receive distribution at the applicable distribution rate from the Issue Date semi-annually in arrears on 29 May and 29 November in each year, commencing on 29 May 2018, and may be deferred at the discretion of the Company unless compulsory distribution payment events (including distributions to ordinary shareholders of the Company or reduction of the registered capital of the Company or repaying any securities of lower rank) has occurred. The distribution rate shall be (i) in respect of the period from, and including, the Issue Date to, but excluding 29 November 2022, (the "First Call Date"), at 3.95 % per annum and (ii) in respect of the periods (A) from and including the First Call Date to, but excluding the immediately following reset date and (B) from, and including, each reset date falling after the First Call Date to, but excluding, the immediately following reset date, the treasury rate plus the initial spread of 1.85% plus 5% per annum. A reset date is defined as each of the First Call Date and each day falling on the expiry of every five calendar years after the First Call Date.

As the Perpetual Securities only impose contractual obligations on the Group to repay the principal or to pay any distributions under certain circumstances which are at the Group's discretion, they have in substance conferred upon the Group an unconditional right to avoid delivering cash or other financial asset to settle contractual obligations, therefore they do not meet the definition for classification as financial liabilities under HKAS 32 Financial Instruments: Presentation. As a result, the whole instrument is classified as equity, and distributions if and when declared are treated as equity dividends. No distribution has been provided or paid by the Group for the year ended 31 December 2017.

(All amounts in HKD thousands unless otherwise stated)

22. BORROWINGS

	2017	2016
Non-current		
Long-term bank borrowings		
– Secured (Note (a))	5,055,765	2,100,931
– Unsecured	2,899,103	1,946,717
Medium-term notes (Note (b))	1,073,010	2,117,437
Senior notes	—	2,344,172
Corporate bonds (Note (c))	3,261,811	3,175,776
	12,289,689	11,685,033
Less: Current portion	(1,396,193)	(4,110,140)
	10,893,496	7,574,893
Current		
Short-term bank borrowings		
– Unsecured	2,200,554	698,486
– Secured (Note (d))	1,335,072	—
Current portion of long-term borrowings		
Bank borrowings		
– Secured (Note (a))	113,989	110,727
– Unsecured	209,194	539,798
Medium-term notes (Note (b))	1,073,010	1,115,443
Senior notes	—	2,344,172
	1,396,193	4,110,140
	4,931,819	4,808,626
Total borrowings	15,825,315	12,383,519

(a) As at 31 December 2017, bank borrowings of HKD2,128,730,000 (2016: HKD2,100,931,000) were secured by a pledge of the operating rights of Qinglian Expressway (Note 9(ii)), of which HKD59,217,000 (2016: HKD110,727,000) represented the current portion of the non-current bank borrowings.

As at 31 December 2017, bank borrowings of HKD1,549,388,000 (2016: Nil) were secured by a pledge of the operating rights of Yichang Company (Note 9(ii)), of which HKD54,772,000 (2016: Nil) represented the current position of non-current bank borrowings.

As at 31 December 2017, bank borrowings of HKD1,377,647,000 (2016:Nil) were secured by a pledge of the operating rights of Outer Ring Expressway (Note 9(ii)).

(b) On 7 May 2014, Shenzhen Expressway completed the issue of the RMB1,000 million medium-term notes, which has a term of 3 years and bears a fixed interest at 5.50% per annum with interest repayable annually and the principal repayable in full upon maturity on 8 May 2017.

On 14 August 2015, Shenzhen Expressway completed the issue of the RMB900 million medium-term notes, which has a term of 3 years and bears a fixed interest at 3.95% per annum with interest repayable annually and the principal repayable in full upon maturity on 18 August 2018.

(All amounts in HKD thousands unless otherwise stated)

22. BORROWINGS *(continued)*

(c) Shenzhen Expressway issued long-term corporate bonds of RMB800 million for a term of 15 years bearing interest at 5.5% per annum in August 2007 ("Corporate Bond A"). Interest is payable annually and the principal is repayable in full upon maturity on 31 July 2022. The full amount of principal and interest of the Corporate Bond A are unconditionally and irrevocably guaranteed by China Construction Bank Corporation, which is in turn secured by the Shenzhen Expressway's 100% equity interest in Shenzhen Meiguan Expressway Company Limited.

In August 2011, Shenzhen Expressway issued another corporate bonds with face value of RMB1,500 million which are fixed interest rate with maturity of 5 years and the principal was repaid in full upon maturity on 27 July 2016.

On 18 July 2016, Shenzhen Expressway issued long-term corporate bonds of USD300 million for a term of 5 years ("Corporate Bond B"). The issuing price was equal to 99.46% of principle with bearing interest at of 2.875% per annum. Interest is payable semi-annually and the principal is repayable in full upon maturity on 18 July 2021.

(d) As at 31 December 2017, bank borrowing of HKD1,038,682,000 (2016:Nil) were secured by a pledge of operating rights of Shuiguan Expressway (Note 9(ii)). Bank borrowing of HKD296,390,000 (2016:Nil) were secured by a pledge of the 45% equity interests of Jade Emperor Limited, a wholly owned subsidiary of the Company.

(e) At 31 December 2017, the borrowings were repayable as follows:

	2017	2016
Within 1 year	**4,931,819**	4,808,625
Between 1 and 2 years	**1,307,873**	1,224,087
Between 2 and 5 years	**6,519,628**	4,244,988
Over 5 years	**3,065,995**	2,105,819
	15,825,315	12,383,519

(f) The carrying amounts of the borrowings are denominated in the following currencies:

	2017	2016
HKD	**1,245,443**	2,178,810
RMB	**11,722,964**	5,341,562
USD	**2,856,908**	4,863,147
	15,825,315	12,383,519

(g) The ranges of interest rates at the balance sheet date were as follows:

	2017			2016		
	HKD	RMB	USD	HKD	RMB	USD
Bank borrowings	**1.99% - 2.94%**	**1.20% - 6.53%**	**2.39% - 2.76%**	1.62% - 2.78%	1.20% - 6.12%	1.97%

(h) The Group has standby banking facilities as follows:

	2017	2016
Floating rate		
– Expiring within one year	**11,450,432**	11,569,179
– Expiring beyond one year	**45,284,046**	22,630,513
	56,734,478	34,199,692

(All amounts in HKD thousands unless otherwise stated)

22. BORROWINGS *(continued)*

(i) The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2017	*2016*	***2017***	*2016*
Bank borrowings	**7,631,685**	3,397,123	**7,141,042**	3,323,000
Corporate bonds	**3,261,811**	3,175,776	**3,499,512**	3,385,163
Medium-term notes	**—**	1,001,994	**—**	1,007,280
	10,893,496	7,574,893	**10,640,554**	7,715,443

The fair values of bank borrowings are determined based on cash flows discounted using effective interest rates ascertained based on the rates of general bank borrowings at 1.19% to 4.90% (2016: 4.90%) per annum.

The fair values of the Corporate Bond A and Corporate Bond B are calculated using cash flows discounted at rates based on market interest rates of comparable corporate bonds at 5.39% and 2.20% (2016: 4.90% and 1.94%) per annum respectively.

The fair value of current borrowings approximates their carrying amount as the effect of discounting is not significant.

(j) The exposure of the borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2017	*2016*
Borrowings with floating rate:		
Up to 6 months	**1,530,538**	2,202,091
Over 6 months and less than 12 months	**209,182**	55,363
1 to 5 years	**4,226,266**	886,974
Over 5 years	**2,967,104**	1,103,230
	8,933,090	4,247,658

23. PROVISION FOR MAINTENANCE/RESURFACING OBLIGATIONS

	2017	*2016*
Opening net book value	**179,087**	239,841
Charged to the consolidated income statement:		
– Additions (Note 29)	**34,545**	32,179
– Increase due to passage of time (Note 31)	**8,624**	6,087
Settlement	**(42,813)**	(85,207)
Exchange difference	**12,485**	(13,813)
Closing net book value	**191,928**	179,087
Less: current portion	**(28,617)**	(36,801)
Non-current portion	**163,311**	142,286

As part of its obligations under the Service Concessions, the Group assumes responsibility for maintenance and resurfacing of the toll roads it manages.

Provision for maintenance/resurfacing obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the inherent risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

(All amounts in HKD thousands unless otherwise stated)

24. DEFERRED TAX

The components of deferred tax (assets)/liabilities recognised in the consolidated Balance Sheet and the movements during the year are as follows:

	Provision for maintenance/ resurfacing obligations	*Concession intangible assets*	*Taxable financial subsidies*	*Fair value changes of available-for-sale financial assets*	*Tax losses*	*Payroll and other expenses accrued but not paid*	*Others*	*Total*
1 January 2016	64,262	(1,654,122)	24,277	(189,822)	84,263	15,787	(253,846)	(1,909,201)
Credited to equity								
– Change of fair value of available-for-sale financial assets	–	–	–	15,732	–	–	–	15,732
– Transfer out upon disposal of available-for-sale financial assets	–	–	–	88,169	–	–	–	88,169
(Charged)/credited to the consolidated income statement (Note 32)	(11,612)	135,887	(1,258)	–	(14,042)	(5,355)	5,457	109,077
Disposal of subsidiaries	–	–	–	–	–	–	2,651	2,651
Exchange differences	(3,291)	70,614	(1,538)	8,264	(4,951)	(819)	10,207	78,486
31 December 2016	49,359	(1,447,621)	21,481	(77,657)	65,270	9,613	(235,531)	(1,615,086)
1 January 2017	**49,359**	**(1,447,621)**	**21,481**	**(77,657)**	**65,270**	**9,613**	**(235,531)**	**(1,615,086)**
Credited to equity								
– Change of fair value of available-for-sale financial assets	**–**	**–**	**–**	**12,642**	**–**	**–**	**–**	**12,642**
Purchase of subsidiaries	**–**	**(456,254)**	**–**	**–**	**629**	**–**	**68,094**	**(387,531)**
(Charged)/credited to the consolidated income statement (Note 32)	**(34)**	**159,316**	**(1,347)**	**–**	**(36,014)**	**5,156**	**36,082**	**163,159**
Exchange differences	**2,958**	**(122,355)**	**1,453**	**(5,006)**	**3,441**	**832**	**(9,259)**	**(127,936)**
31 December 2017	**52,283**	**(1,866,914)**	**21,587**	**(70,021)**	**33,326**	**15,601**	**(140,614)**	**(1,954,752)**

(All amounts in HKD thousands unless otherwise stated)

24. DEFERRED TAX *(continued)*

	2017	2016
Net deferred tax assets recognised in the consolidated statement of financial position	**257,075**	144,189
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(2,211,827)**	(1,759,275)
Total	**(1,954,752)**	(1,615,086)

The tax charge relating to components of other comprehensive income is as follows:

	2017			2016		
	Before tax	**Tax credited**	**After tax**	Before tax	Tax credited	After tax
Fair value (losses)/gains on available-for-sale financial assets	**(50,568)**	**12,642**	**(37,926)**	(62,928)	15,732	(47,196)
Transfer of fair value gain to consolidated income statement upon disposal of available-for-sale financial assets	**–**	**–**	**–**	(349,486)	88,169	(261,317)
Fair value gains on derivative financial instruments	**–**	**–**	**–**	1,483	–	1,483
Share of other comprehensive income/ (loss) of associates	**74,539**	**–**	**74,539**	(8,267)	–	(8,267)
Share of other comprehensive loss of a joint venture	**–**	**–**	**–**	–	–	–
Currency translation differences	**2,122,933**	**–**	**2,122,933**	(1,832,200)	–	(1,832,200)
	2,146,904	**12,642**	**2,159,546**	(2,251,398)	103,901	(2,147,497)

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets in respect of tax losses amounting to HKD251,276,000 (2016: HKD285,868,000) that can be carried forward against future taxable income.

(All amounts in HKD thousands unless otherwise stated)

24. DEFERRED TAX *(continued)*

The expiry year of tax losses in respect of which deferred tax assets were not recognised at 31 December 2017 is as follows:

Year	*2017*	*2016*
2017	—	99,063
2018	174,597	163,235
2019	1,018	980
2020	1,171	1,095
2021	22,991	21,495
2022	51,499	—
	251,276	285,868

25. OTHER NON-CURRENT LIABILITIES

	2017	*2016*
Compensations from government regarding Nanguang Expressway, Yanpai Expressway, Yanba Expressway and Longda Expressway toll free arrangement (Note (a))	9,103,343	9,412,716
Deferred income (Note (b))	617,445	597,020
	9,720,788	10,009,736

(a) As at 31 December 2017, the amount mainly represented compensation received in relation to the toll adjustment and compensation for Nanguang Expressway, Yanpai Expressway, Yanba Expressway and Longda Expressway Shenzhen Section. On 30 November 2015, Shenzhen Expressway and Shenzhen Longda Expressway Company Limited ("Longda Company", a subsidiary of Group), and SZ Transportation Committee entered into the toll adjustment and compensation agreements regarding Nanguang Expressway, Yanpai Expressway, Yanba Expressway and Longda Expressway (the "Adjustment Agreements"), pursuant to which Nanguang Expressway, Yanpai Expressway, Yanba Expressway (together operated by Shenzhen Expressway) and Longda Expressway Shenzhen Section (namely, the 23.8 km section of the Longda Expressway from the starting point of the Longda Expressway to the Nanguang ramp, operated by Longda Company) (the "4 Toll Roads") became toll-free from 00:00 on 7 February 2016 in two phases in exchange for cash compensation calculated based on adjustment mechanism by SZ Transportation Committee. During Phase 1, the Group will retain its toll fee right and be responsible for the maintenance and repair of the 4 Toll Roads. SZ Transportation Committee will engage the services of the Group and implement toll-free for the 4 Toll Roads in exchange for an amount of cash compensation. During Phase 2, SZ Transportation Committee may, within 10 months before the end of Phase 1, elect to adopt either Option 1 or Option 2 to be effective from 00:00 on 1 January 2019. Under Option 1, the parties will continue to operate in the same manner in Phase 1. Under Option 2, toll fee right of the 4 Toll Roads will be returned to SZ Transportation Committee in exchange for cash compensation and SZ Transportation Committee will implement toll-free for the 4 Toll Roads, the Group will no longer retain its toll fee rights nor be responsible for the maintenance and repair of the 4 Toll Roads.

(All amounts in HKD thousands unless otherwise stated)

25. OTHER NON-CURRENT LIABILITIES *(continued)*

(a) *(continued)*

The parties will engage Shenzhen City Transport Planning Study Centre Co., Ltd. to audit the actual amount of toll revenue in each of the financial years during Phase 1 according to the agreed approach under the Adjustment Agreements. If the actual toll revenue deviates by or less than 3% from the estimated figure stipulated under the Adjustment Agreements, the amount of compensation payable by SZ Transportation Committee will not be adjusted. If the actual toll revenue deviates more than 3% from the estimated figure stipulated under the Adjustment Agreements, the amount of compensation payable by SZ Transportation Committee will be adjusted upwards or downwards (as the case may be).

All compensation (not including compensation for the relevant taxes) payable by SZ Transportation Committee to the Group were subject to additional interest payable by SZ Transportation Committee to the Group to reflect the time value of the compensation for the period between the basis date of valuation and the date of payment. Such interest should start to accrue from 1 December 2015 and calculated based on the loan interest rate with the corresponding tenor published by the PBOC, which was ranged from 4.35% to 4.75%.

Compensation includes unrecognised finance charges that will be amortised in the consolidated income statement within "finance cost" from December 2015 to December 2018. Interest expense of HKD494,488,000 was recognised for the year ended 31 December 2017 (2016: HKD532,371,000) (Note 31).

In December 2015, the Group received the first payment from SZ Transportation Committee amounting to HKD11,599,650,000, of which HKD964,530,000 was in relation to the toll revenue of the 4 Toll Roads during 2018 (2016: HKD854,080,000 was in relation to the toll revenue of the 4 Toll Roads during 2017) (Note 26).

(b) As at 31 December 2017, deferred income includes government grants amounting to HKD399,530,000 (2016: HKD371,734,000) which was received from the government for the purpose of subsidising the Group's development, operation and setting up certain integrated logistics hubs. The corresponding deferred income with maturity within one year amounted to HKD10,108,000 (2016: HKD9,859,000) was included in "Trade and other payables".

(All amounts in HKD thousands unless otherwise stated)

26. TRADE AND OTHER PAYABLES

	2017	2016
Trade payables (Note (a))	115,351	107,154
Payables relating to construction projects (Note (b))	1,804,992	2,317,868
Advances from associates (Note (c))	60,801	101,939
Compensation from government regarding Nanguan Expressway, Yanpai Expressway, Yanba Expressway and Longda Expressway toll free arrangement (Note 25)	964,530	854,080
Other payables, accrued expenses and deferred income (Note (d))	1,924,848	4,066,708
	4,870,522	7,447,749

(a) The ageing analysis of the trade payables based on the date of invoices was as follows:

	2017	2016
0-90 days	93,357	92,636
91-180 days	2,892	8,944
181-365 days	18,308	4,638
Over 365 days	794	936
	115,351	107,154

(b) Included in advances from government relating to construction projects is an amount of HKD935,976,000 (2016: HKD1,585,286,000), and payable for projects of entrusted management and construction of highways is an amount of HKD868,627,000 (2016: HKD732,581,000), which was payable for projects of highways and logistic parks.

(c) These advances are interest-free, unsecured and repayable on demand.

(d) Other payables, accrued expenses and deferred income mainly included payables for entrusted service costs of HKD166,685,000 (2016: HKD170,527,000), interest payables of HKD91,095,000 (2016:HKD125,972,000), employee benefit expenses of HKD269,817,000 (2016: HKD192,228,000), receipt in advance from sales of properties of HKD544,755,000 (2016: HKD190,411,000), deferred income with maturity within one year of HKD18,276,000 (2016: HKD25,308,000), advance from the Coastal Project second phase of HKD24,031,000 (2016: HKD37,066,000).

(All amounts in HKD thousands unless otherwise stated)

27. REVENUE

	2017	2016
Toll Roads		
– Toll revenue	5,634,244	5,106,600
– Entrusted construction management service and construction consulting service revenue	94,520	508,469
– Construction service revenue under Service Concession	862,303	146,487
– Others	519,521	294,948
	7,110,588	6,056,504
Logistic Business		
– Logistic parks	564,021	571,880
– Logistic services	1,045,553	629,701
– Port and related services	967,768	529,095
	2,577,342	1,730,676
Head Office Functions	18,598	—
	9,706,528	7,787,180

28. OTHER GAINS - NET

	2017	2016
Gain on replacement of land (Note 1)	2,829,605	—
Gains on land compensation	28,575	—
Losses on impairment of certain property, plant and equipment (Note 6, Note(a))	(89,342)	—
Losses on impairment of certain inventories (Note 15, Note (a))	(251,611)	—
Gain on disposal of a subsidiary	51,834	—
Gains on revaluation on equity interests in a joint venture previously held arising from business combinations with change of control–net (Note 38)	31,209	—
Losses on disposal of Meiguan Expressway's toll free section related assets	(50,579)	(31,113)
Gains on disposal of available-for-sale financial assets	61,412	238,558
Gain on disposal of land assets in Qianhai	—	648,246
Others	23,095	10,969
	2,634,198	866,660

(a) Due to the unfavorable business performance of the logistic park located in Shenyang, the management of the Group considered that certain assets including property, plant and equipment and completed properties for sale were identified with impairment indicators, impairment assessment were performed and impairment of HKD89,342,000 and HKD251,611,000 were made for the relevant property, plant and equipment and completed properties for sale respectively, and which were charged to the consolidated income statement of the Group during the year ended 31 December 2017.

(All amounts in HKD thousands unless otherwise stated)

29. EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs and administrative expenses are analysed as follows:

	2017	*2016*
Construction services cost under Service Concession	**862,303**	146,487
Provision for maintenance/resurfacing obligations - net (Note 23)	**34,545**	32,179
Depreciation and amortisation	**1,935,870**	1,673,254
Employee benefit expenses (Note 30)	**970,803**	942,262
Transportation expenses and contractors' costs	**649,761**	407,319
Rental charges	**63,707**	26,741
Other tax expenses	**81,745**	107,417
Commission, management fee and maintenance expenses for toll roads	**345,037**	352,347
Entrusted construction management service costs	**12,487**	73,619
Net provision/(write back) for impairment of trade receivables (Note 17)	**24,473**	(2,261)
Auditors' remuneration *		
– Audit services	**7,234**	5,759
– Non-audit services	**7,416**	3,285
Legal and consultancy fees	**40,006**	45,117
Costs for logistic and supply chain management business	**702,060**	394,185
Others	**1,069,907**	1,031,684
	6,807,354	5,239,394

* *Auditors' remuneration in 2017 includes amounts of HKD3,611,000 for audit services (2016: HKD3,050,000) and HKD2,200,000 for non-audit services (2016: HKD1,029,000) respectively which are paid/payable to KPMG, the auditor of the Company.*

30. EMPLOYEE BENEFIT EXPENSES

	2017	*2016*
Wages and salaries	**743,154**	719,733
Pension costs-defined contribution plans	**83,292**	79,502
Share-based payment expenses (Note 19)	**29,358**	23,942
Others	**114,999**	119,085
	970,803	942,262

From 1 December 2000, a MPF scheme has been set up for eligible employees in Hong Kong of the Group. Contributions to the MPF Scheme by the Group and employees are calculated at rates specified in the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group by an independently administered fund.

The Group also contributes to employee retirement schemes established by the PRC local governments in respect of certain subsidiaries in the PRC. The PRC local governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated income statement as incurred.

No forfeited contributions (2016: nil) were utilised during the year and none is available at the year-end to reduce future contribution.

(All amounts in HKD thousands unless otherwise stated)

30. EMPLOYEE BENEFIT EXPENSES *(continued)*

(a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2017 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to retirement scheme	Compensation for loss of office as director	Share-based payment	Total
Gao Lei	–	243	1,141	42	130	–	948	2,504
Li Hai Tao(i)	–	278	1,080	82	131	–	859	2,430
Zhong Shan Qun	–	653	606	82	146	–	709	2,196
Liu Jun	–	653	606	82	146	–	709	2,196
Hu Wei(ii)	–	546	213	63	103	–	625	1,550
Li Lu Ning(iii)	–	272	243	36	39	–	84	674
Xie Chu Dao(iv)	125	–	–	–	–	–	–	125
Liu Xiao Dong(v)	72	–	–	–	–	–	–	72
Leung Ming Yuen, Simon	350	–	–	–	–	–	–	350
Ding Xun	350	–	–	–	–	–	–	350
Nip Yun Wing	350	–	–	–	–	–	–	350
Yim Fung	350	–	–	–	–	–	–	350
								13,147

(i) *The chief executive of the Company.*
(ii) *Appointed on 17 May 2017.*
(iii) *Resigned on 17 May 2017.*
(iv) *Appointed as a non-executive director on 17 May 2017.*
(v) *Appointed as a non-executive director on 23 August 2017.*

The remuneration of each Director for the year ended 31 December 2016 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to retirement scheme	Compensation for loss of office as director	Share-based payment	Total
Gao Lei	–	264	853	48	127	–	682	1,974
Li Hai Tao(i) (ii)	–	163	464	45	55	–	638	1,365
Zhong Shan Qun	–	656	349	77	121	–	512	1,715
Liu Jun	–	656	349	77	121	–	512	1,715
Li Lu Ning	–	656	349	77	121	–	512	1,715
Li Jing Qi(iii)	–	116	332	31	38	–	302	819
Yim Fung	350	–	–	–	–	–	–	350
Leung Ming Yuen, Simon	350	–	–	–	–	–	–	350
Ding Xun	350	–	–	–	–	–	–	350
Nip Yun Wing	350	–	–	–	–	–	–	350
								10,703

(i) *The chief executive of the Company.*
(ii) *Appointed on 8 June 2016.*
(iii) *Resigned on 8 June 2016.*

During the year ended 31 December 2017 and 2016, no emoluments had been paid by the Group to the directors or the five highest-paid individuals referred to in (b) below as an inducement to join or upon joining the Group or as a compensation for loss of office.

(All amounts in HKD thousands unless otherwise stated)

30. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2016: two) directors. The emoluments payable to the remaining one (2016: three) individual during the year is as follows:

	2017	2016
Basic salaries and allowances	2,917	4,186
Year-end bonuses	600	1,573
Contributions to the retirement scheme	18	292
Share-based payment expenses	709	2,108
Other benefits	10	67
	4,254	8,226

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument band		
HKD1,500,001 - HKD2,000,000	—	1
HKD2,000,001 - HKD2,500,000	—	1
HKD3,500,001 - HKD4,000,000	—	1
HKD4,000,001 - HKD4,500,000	1	—

31. FINANCE INCOME AND COSTS

	2017	2016
Interest income from bank deposits	(96,182)	(186,643)
Interest income from other receivables	(5,069)	(6,772)
Other interest income	(12,342)	(1,661)
Total finance income	(113,593)	(195,076)
Interest expense		
– Bank borrowings	422,876	189,100
– Medium-term notes	65,634	110,115
– Senior notes	32,665	103,165
– Corporate bonds	128,448	146,513
– Other interest costs (Note 23)	8,624	6,087
– Interest costs for other financial liabilities (Note 25)	494,488	532,371
Net foreign exchange (gains)/losses	(312,629)	368,072
Losses/(gains) on derivative financial instruments directly attributable to borrowings	169,402	(117,946)
Less: finance costs capitalised on qualified assets	(107,475)	(146,790)
Total finance costs	902,033	1,190,687
Net finance costs	788,440	995,611

Finance costs of HKD107,475,000 (2016: HKD146,790,000) have been capitalised for the construction of qualified assets such as property, plant and equipment, construction in progress and properties under development in 2017, using an average interest rate of 2.64% (2016: 6.12%) per annum.

(All amounts in HKD thousands unless otherwise stated)

32. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on overseas profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The PRC Corporate Income Tax charged to the consolidated income statement was calculated based on the assessable profits of the Company's subsidiaries located in the PRC of the year at a rate of 25% (2016: 25%) applicable to the respective companies.

	2017	2016
Current income tax		
– PRC Corporate Income Tax	**1,593,609**	946,700
Deferred tax (Note 24)	**(163,159)**	(109,077)
	1,430,450	837,623

The taxation on the Group's profit before income tax differs from the theoretical amount that would have arisen using the main statutory tax rate applicable to profit of the Group due to the following:

	2017	2016
Profit before income tax	**6,186,942**	3,754,805
Tax calculated at a tax rate of 25% (2016: 25%)	**1,546,736**	938,701
Tax impact of:		
– Different tax rates in other jurisdiction	**(16,984)**	88,052
– Non-taxable income	**(15,259)**	(29,336)
– Non-deductible expenses	**44,322**	57,196
– Unrecognised tax losses	**33,170**	5,942
– Share of profits of joint ventures and associates	**(347,087)**	(306,287)
– Withholding income tax on dividends (Note (a))	**85,058**	63,153
– Unrecognised deductible temporary difference	**87,925**	20,202
– Prior years income tax adjustment	**12,569**	—
Income tax expense	**1,430,450**	837,623

(a) According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding income tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding income tax rate will be reduced from 10% to 5%.

Certain profits generated by the relevant PRC subsidiaries would be distributed to their non-PRC registered intermediate holding companies and as such, deferred tax liability in this respect was provided accordingly in the consolidated financial statements of the Group for the current year to the extent that such earnings are estimated by the directors of the Company to be distributed in the foreseeable future.

The amount of profits on which withholding income tax has not been provided at 31 December 2017 was HKD 7,760,341,000 (2016: HKD7,923,718,000).

33. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to ordinary shareholders of the Company	**3,841,776**	2,115,695
Weighted average number of ordinary shares in issue (thousands)	**1,992,748**	1,929,847
Basic earnings per share (HKD per share)	**1.93**	1.10

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2017	2016
Profit attributable to ordinary shareholders of the Company	**3,841,776**	2,115,695
Weighted average number of ordinary shares in issue (thousands)	**1,992,748**	1,929,847
Adjustments - share options (thousands)	**10,251**	4,197
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,002,999**	1,934,044
Diluted earnings per share (HKD per share)	**1.92**	1.09

34. DIVIDENDS

According to the scrip dividend scheme approved by the shareholders in the annual general meeting held on 17 May 2017, 55,338,274 new shares were issued at a price of HKD11.9852 per share, totalling HKD663,245,000. The remaining dividends totalling HKD178,693,000 was paid in cash in June 2017. At the board meeting on 27 March 2018, the board recommended the payment of final dividend and special dividend for the year of 2017 of HKD0.44 per ordinary share and HKD0.56 per ordinary share respectively. Such dividends are to be approved by the shareholders at the forthcoming annual general meeting of the Company in 2018 ("Annual General Meeting"). These consolidated financial statements do not reflect this as dividend payable.

	2017	2016
Proposed final and total dividend of HKD0.44 (2016: HKD0.43) per ordinary share	**892,665**	841,806
Proposed special dividend of HKD0.56 (2016: Nil) per ordinary share	**1,136,118**	—
	2,028,783	841,806

The board recommended that the final dividend be satisfied wholly in the form of an allotment of scrip shares. Shareholders will be given the option of receiving the final dividend wholly in cash in lieu of such allotment, or partly in cash and partly in the form of scrip shares. The arrangement is subject to: (1) the approval of proposed final dividend at the forthcoming Annual General Meeting; and (2) The Stock Exchange's granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

(All amounts in HKD thousands unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to consolidated cash generated from operations

	2017	*2016*
Profit before income tax	**6,186,942**	3,754,805
Adjustments for:		
– Depreciation (Note 6)	**348,711**	338,504
– Amortisation of land use rights (Note 7)	**46,659**	37,086
– Amortisation of intangible assets (Note 9)	**1,540,500**	1,297,664
– Losses on disposal of Meiguan Expressway's toll free section related assets (Note 28)	**50,579**	31,113
– Provision for maintenance/resurfacing obligations net (Note 23)	**34,545**	32,179
– Provision/(Reversal of provision) for impairment of trade receivables (Note 17 and 29)	**24,473**	(2,261)
– Gains on disposal of available-for-sale financial assets (Note 28)	**(61,412)**	(238,558)
– Gains on revaluation on equity interests in a joint venture previously held arising from business combinations with change of control-net (Note 28)	**(31,209)**	—
– Remeasurement gain on fair value of residual shareholdings after loss of control of subsidiary	**—**	(5,385)
– Gain on replacement of the first phase of Qianhai land (Note 28)	**(2,829,605)**	—
– Gain on disposal of land assets in Qianhai (Note 28)	**—**	(648,246)
– Gain on disposal of a subsidiary (Note 28)	**(51,834)**	—
– Losses on impairment of certain property, plant and equipment and inventories (Note 28)	**340,953**	—
– Deferred income recognised in the consolidated income statement	**(41,735)**	(14,141)
– Share-based payment expenses (Note 30)	**29,358**	23,942
– Losses on disposal of property, plant and equipment	**4,376**	1,313
– Fair value gains on investment properties	**(5,940)**	(5,940)
– Estimated revenue derived from the 4 Toll Roads toll free arrangements	**(1,380,104)**	(1,176,177)
– Interest income (Note 31)	**(113,593)**	(195,076)
– Interest expense (Note 31)	**902,033**	1,190,687
– Share of profit of associates and joint ventures (Notes 11 and 12)	**(1,388,348)**	(1,225,149)
– Dividend income	**(9,367)**	(62,377)
	3,595,982	3,133,983
Changes in working capital (excluding the exchange differences on acquisition of subsidiaries):		
– Inventories	**(57,472)**	(1,657,794)
– Trade and other receivables	**440,591**	(697,990)
– Trade and other payables	**(419,217)**	3,745,881
– Provision for maintenance/resurfacing obligations (Note 23)	**(42,813)**	(85,207)
Decrease/(increase) in restricted bank deposits	**575,611**	(1,341,513)
Cash generated from operations	**4,092,682**	3,097,360

(All amounts in HKD thousands unless otherwise stated)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(a) Reconciliation of profit before income tax to consolidated cash generated from operations *(continued)*

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment and concession intangible assets comprise:

	2017	*2016*
Net book value of property, plant and equipment (Note 6)	**26,533**	3,347
Net book value of concession intangible assets (Note 9)	**9,669**	—
Losses on disposal of property, plant and equipment	**(4,376)**	(1,313)
Proceeds from disposal	**31,826**	2,034

Non-cash transactions

The principal non-cash transactions for the year ended 31 December 2017 represented the issue of shares to satisfy dividend pursuant to the scrip dividend scheme as disclosed in Note 34.

(b) Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings (Note 22)	*Notes and bonds (Note 22)*	*Borrowings from related party*	*Total*
At 1 January 2017	4,746,134	7,637,385	22,324	12,405,843
Changes from financing cash flows:				
Proceeds from borrowings	8,873,574	34,316	—	8,907,890
Repayment of borrowings	(4,076,489)	(3,622,445)	(23,148)	(7,722,082)
Total changes from financing cash flows	4,797,085	(3,588,129)	(23,148)	1,185,808
Exchange adjustments	407,383	230,621	824	638,828
Other changes:				
Adjustment of amortization cost	—	54,944	—	54,944
Proceeds from new bank loans from acquisition of a subsidiary	1,539,892	—	—	1,539,892
Total other changes	1,539,892	54,944	—	1,594,836
At 31 December 2017	11,490,494	4,334,821	—	15,825,315

(All amounts in HKD thousands unless otherwise stated)

36. GUARANTEES AND CONTINGENCIES

(a) Shenzhen Expressway had construction management contracts and arranged with bank to issue irrevocable performance guarantees amounting to HKD17,908,000 (2016: HKD16,743,000), HKD42,801,000 (2016: HKD68,226,000), HKD119,389,000 (2016: HKD111,620,000) and HKD59,897,000 (2016: Nil) on its behalf to SZ Transportation Committee, Shenzhen Longhua New Area Construction Service Management Centre, Shenzhen Guangshen Coastal Expressway Investment Co., Ltd ("Coastal Company") and Shenzhen Longhua Area Construction Bureau respectively.

(b) United Land Company entered into the Land Transfer Agreements with Longhua Management Bureau under Urban Planning Land and Resources Commission of the Shenzhen Municipal and executed the Meilin Checkpoint Urban Renewal Project. Due to the change of Government functions, United Land Company had arranged with a bank to issue new irrevocable performance guarantees to Shenzhen Longhua Reconstruction Office amounting to HKD55,158,000 and withdraw the original irrevocable performance guarantees (HKD51,568,000 in 2016) which was issued to Shenzhen Longhua New District City Construction Burean.

(c) As of 31 December 2017, Shenzhen Expressway has given collateral liability guarantees by phases of approximately HKD496,872,000 (2016: HKD198,616,000) to banks in respect of housing loans extended to purchasers of properties by banks. Pursuant to the terms of guarantees, in the event of any defaults in mortgage repayments by those purchasers, Shenzhen Expressway shall undertake to repay outstanding mortgage loans together with any accrued interest and penalty due to banks by purchasers in defaults. After that, Shenzhen Expressway could obtain the legal ownership of those properties. The validity period of Shenzhen Expressway's guarantee shall commence from the date of grant of relevant mortgage loans and expire upon receipts of property ownership certificates by respective purchasers. The directors of the Group consider that, in case of default in repayments, the net realisable value of related properties should be able to cover repayments of outstanding mortgage loans together with any accrued interest and penalty and, accordingly, no provision has been made in respect of the guarantees.

(All amounts in HKD thousands unless otherwise stated)

37. COMMITMENTS

(a) Capital commitments

	2017	2016
Capital commitments - expenditure of property, plant and equipment, concession intangible assets and land premium		
– Authorised but not contracted	**3,668,101**	3,411,669
– Contracted but not provided for	**4,083,221**	4,605,361
	7,751,322	8,017,030

(b) Operating lease commitments - the Group as the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
Land and buildings:		
Not later than 1 year	**43,014**	7,970
Later than 1 year and not later than 5 years	**169,416**	376
Over 5 years	**835,741**	—
	1,048,171	8,346

(c) Operating lease commitments - the Group as the lessor

The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2017	2016
Land and buildings:		
Not later than 1 year	**539,225**	228,489
Later than 1 year and not later than 5 years	**919,464**	310,431
Over 5 years	**621,920**	543,188
	2,080,609	1,082,108

(All amounts in HKD thousands unless otherwise stated)

38. BUSINESS COMBINATION

(a) Acquisition of 100% equity interests of Yichang Company

On 20 January 2017, the Group entered into an equity transfer agreement with Shenzhen Pingan Innovation Capital Investment Company Limited ("Pingan Innovation"). The Group acquired the 100% equity interests in Yichang Company held by Pingan Innovation with a cash consideration of RMB1,270,000,000 (equivalent to HKD1,441,053,000). The acquisition was completed on 15 June 2017. Yichang Company became a subsidiary of the Group.

The following table summarises the consideration paid for Yichang Company, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	
As at 15 June 2017	
Fair value of acquisition of 100% net asset of Yichang Company	1,441,053
Total consideration	1,441,053
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	132,882
Other current assets	9,736
Property, plant and equipment	21,324
Construction in progress (Note 8)	1,185
Concession intangible assets	3,546,232
Borrowings	(1,539,892)
Other current liabilities	(274,160)
Deferred tax liabilities	(456,254)
Total identifiable net assets	1,441,053
Non-controlling interest	—
Goodwill	—
	1,441,053
Purchase consideration settled in cash in 2017	(1,441,053)
Cash and cash equivalent for a subsidiary acquired	132,882
Cash outflow on acquisition	(1,308,171)

(All amounts in HKD thousands unless otherwise stated)

38. BUSINESS COMBINATION *(continued)*

(a) Acquisition of 100% equity interests of Yichang Company *(continued)*

Details of fair value estimation of concession intangible assets set out in Note 4.

The revenue included in the consolidated income statement since 15 June 2017 contributed by Yichang Company was HKD264,343,000. Yichang Company also contributed profit of HKD65,559,000 over the same period.

Had the combination taken place at the beginning of the year, the revenue and profit included in the consolidated income statement contributed by Yichang Company for the year would have been HKD 471,742,000 and HKD 174,289,000 respectively.

(b) Consolidation of Changsha Shenchang Expressway Co., Ltd ("Shenchang Company")

Shenchang Company was a joint venture with its 51% equity interests held by the Group. On 1 April 2017, Shenchang Company amended its articles of association. Based on amended articles of association, since 1 April 2017, significant decisions on finance, production and operation will be implemented only when a half of voting rights are exercised and exceeded in accordance with the proportion of capital contributions. Therefore Shenzhen Expressway obtained the controlling power over Shenchang Company and it became a subsidiary of the Group.

The following table summarises the consideration paid for Shenchang Company, the fair value of assets consolidated, liabilities assumed and the non-controlling interest at the consolidation date:

Consideration	
As at 1 April 2017	
Fair value of equity interests in Shenchang Company held before the business combination	215,332
Total consideration	215,332
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	53,132
Other current assets	4,749
Property, plant and equipment	51,703
Concession intangible assets	274,522
Deferred tax assets	68,723
Other current liabilities	(30,609)
Total identifiable net assets	422,220
Non-controlling interest	(206,888)
Goodwill	—
	215,332
Purchase consideration settled in cash in 2017	—
Cash and cash equivalent for a subsidiary consolidated	53,132
Cash inflow from consolidation	53,132

38. BUSINESS COMBINATION *(continued)*

(b) Consolidation of Changsha Shenchang Expressway Co., Ltd ("Shenchang Company") *(continued)*

The fair value of the non-controlling interest in Shenchang Company, an unlisted company, on 1 April 2017, was estimated with reference to the fair value of equity interests of Shenchang Company held before business combination.

The Group recognised a gain of HKD31,209,000 (Note 28) as a result of remeasuring at fair value its 51% equity interests in Shenchang Company held before the business combination. The gain was recorded in "other gains - net" in the Group's income statement for the year ended 31 December 2017.

The revenue included in the consolidated income statement since 1 April 2017 contributed by Shenchang Company was HKD132,020,000. Shenchang Company also contributed profit of HKD57,179,000 over the same period.

Had the combination taken place at the beginning of the year, the revenue and profit included in the consolidated income statement contributed by Shenchang Company for the year would have been HKD163,802,000 and HKD 64,424,000 respectively.

39. RELATED-PARTY TRANSACTIONS

As described in Note 1, the Company is de facto controlled by Shenzhen SASAC. The transactions entered into with associates, joint ventures and other state-owned entities are related party transactions. Management considers certain state-owned enterprises have material transactions with the Group in its ordinary course of business, which include but not limited to (1) capital expenditure incurred for Service Concession projects and construction in progress with stated-owned contractors and the corresponding payable balances due to these contractors and guaranteed deposits; (2) purchase of goods, including use of public utilities; and (3) bank deposits and borrowings. These transactions are mainly carried out on terms comparable to those conducted with third parties or standards promulgated by relevant government authorities and have been reflected in the consolidated financial statements.

Management believes that meaningful information relating to related party transactions has been disclosed. Apart from the transactions as mentioned in Notes 1, 14, 16, 17, 25, 26 and 36 are related party transactions of the Group, the Group has the following significant transactions with related parties during the year:

(a) Shenzhen Expressway provides project management services for construction, operation and maintenance of the Coastal Project. The Coastal Project is owned by Coastal Company which is wholly owned by SIHCL. The project management service revenue is calculated at 1.5% of the construction budget. On 9 September 2011, Shenzhen Expressway and Coastal Company entered into the entrusted construction management agreement to formalise the terms of these arrangements. During the year, Shenzhen Expressway has reversed the previously recognised construction management service revenue amounting to RMB745,030,000 (approximately to HKD862,303,000) (2016: service revenue amounting to RMB9,494,000 (approximately to HKD11,039,000)).

In addition, according to the entrusted operation management agreement signed between Shenzhen Expressway and Coastal Company in December 2016, Shenzhen Expressway recognised entrusted management service revenue in the consolidated income statement amounting to RMB14,151,000 (HKD16,378,000) (2016: RMB50,943,000 (approximately to HKD59,229,000)) after netting of VAT of RMB849,000 (approximately to HKD983,000) (2016: RMB3,057,000 (approximately to HKD3,554,000)) during the year.

(b) On 1 December 2016, Consulting Company became an associate of Shenzhen Expressway, and Shenzhen Expressway and Consulting Company entered into a service agreement pursuant to which Consulting Company provides engineering consulting, management and testing service. During year ended 31 December 2017, Shenzhen Expressway paid service fee to Consulting Company amounting to RMB15,982,000 (approximately to HKD18,498,000) (during the period from 1 December and 31 December 2016: RMB17,150,000 (approximately to HKD19,940,000)).

(All amounts in HKD thousands unless otherwise stated)

39. RELATED-PARTY TRANSACTIONS *(continued)*

(c) On 11 December 2017, Shenzhen Expressway entered into an acquisition agreement for the acquisition of 100% equity interest in Coastal Company from SIHCL, the controlling shareholder of the Company, at a consideration of RMB1,472 million (approximately HKD1,712 million). As at 31 December 2017, SZ Expressway has fully paid the acquisition consideration, and Coastal Company has completed the change on industrial and commercial registration.

(d) Details of key management compensation are set out in Note 30.

(e) For the year ended 31 December 2017, the transactions stated in the entrusted operation management agreement between Shenzhen Expressway and Coastal Company mentioned in (a) constitute continued connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are disclosed in the Directors' Report.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2017:

Name	*Principal activities*	*Issued and fully paid share capital/ paid-in capital*	*Interest held by Group (%)*	*Non-controlling interests (%)*
Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ◇	Investment holding	RMB200,000,000	100	–
Shenzhen Total Logistics Service Co., Ltd.@	Provision of total logistics and transportation ancillary services	RMB31,372,549	51	49
Xin Tong Chan Development (Shenzhen) Co., Ltd. △	Investment holding	RMB200,000,000	100	–
Shenzhen International South-China Logistics Co., Ltd.@	Development, construction, operation and management of South China Logistic Park	RMB350,000,000	100	–
Shenzhen International Supply Chain Management Nanjing Co., Ltd@	Supply chain management services	RMB10,000,000	100	–
Shenzhen International Holdings (SZ) Limited △	Investment holding	HKD2,180,000,000	100	–
Shenzhen EDI Co., Ltd.@	Provision of electronic information exchange, transmission and value-added information sharing services	RMB22,760,000	79.87	20.13
Shenzhen International West Logistics Co., Ltd.@	Development, construction, operation and management of Western Logistic Park	RMB450,000,000	100	–
Shenzhen Bao Tong Highway Construction and Development Limited@ *	Development, construction, investment, operation and management of toll highway	RMB1,533,800,000	100	–
Shenzhen Longda Expressway Company Limited@ *	Operation and management of Longda Expressway	RMB200,000,000	89.93	10.07

(All amounts in HKD thousands unless otherwise stated)

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	*Principal activities*	*Issued and fully paid share capital/ paid-in capital*	*Interest held by Group (%)*	*Non-controlling interests (%)*
Shenzhen Expressway Company Limited^	Investment, construction, operation and management of toll highways and roads	RMB2,180,770,326	51.24	48.76
Hubei Magerk Expressway Management Private Limited △ *	Operation and management of highways and expressways	USD28,000,000	100 ▽	—
Shenzhen International Booming Total Logistics Co., Ltd.@ *	Logistic services and related warehouse facilities	RMB90,000,000	55.39	44.61
Shenzhen Shen Guang Hui Highway Development Company@ *	Investment holding	RMB105,600,000	100	—
Nanjing Xiba Wharf Co. Ltd. ◇ *	Construction, operation and management of Wharf and Logistics Centres at Xiba Port of Nanjing	RMB455,000,000	70	30
Guangdong Qinglian Highway Development Company Limited ◇	Development, operation and management of highways	RMB3,361,000,000	76.37 ▽	23.63
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited@	Construction, operation and management of an expressway	RMB440,000,000	100 ▽	—
Shenzhen Meiguan Expressway Company Limited@	Construction, operation and management of an expressway	RMB332,400,000	100 ▽	—
Nanchang Shenzhen International Integrated Logistics Hub Development Co., Ltd. △	Construction, operation and management of urban integrated logistics hub at Nanchang Economic and Technological Development Zone	USD25,000,000	100	—
Shenzhen International Huatongyuan Logistics Co., Ltd.@ *	Logistic services and related warehouse facilities	RMB60,000,000	51	49
Nanjing Xiba Port Co., Ltd. ◇ *	Construction, operation and management of Wharf and logistics centres at Xiba Port in Phase 2 of Nanjing	RMB420,000,000	70	30
Shenzhen International Logistics Development Co., Ltd.@ *	Investment holding	RMB1,250,000,000	100	—
Shenyang Shenzhen International Integrated Logistics Properties Co., Ltd.@ *#1	Construction, operation and management of Shenyang International Logistics Integrated Logistics Park at Shenyang Yuhong District	RMB250,000,000	100	—

(All amounts in HKD thousands unless otherwise stated)

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	*Principal activities*	*Issued and fully paid share capital/ paid-in capital*	*Interest held by Group (%)*	*Non-controlling interests (%)*
Wuxi Shenzhen International Integrated Logistics Hub Co., Ltd. △	Construction, operation and management of urban integrated logistics hub at Wuxi Huishan District	USD50,000,000	100	–
Wuhan Shenzhen International Integrated Logistics Hub Development Co., Ltd.@ *	Construction, operation and management of urban integrated logistics hub at Wuhan Dongxihu District	RMB100,000,000	100	–
Shijiazhuang Shenzhen International Integrated Logistics Hub Development Co., Ltd.@ *	Construction, operation and management of urban integrated logistics hub at Shijiazhuang Zhengding County	RMB100,000,000	80	20
Shenzhen International Modern Urban Logistics Hub Co., Ltd.@ *	Construction, operation and management of logistics hub at Shenzhen Longhua	RMB200,000,000	100	–
Shenzhen International United Land Co., Ltd.@ * #2	Acquisition and demolition of Meilin Checkpoint urban renewal project's land	RMB5,000,000,000	100	–
Tianjin Shenzhen International Integrated Logistics Hub Development Co., Ltd.@ *	Construction, operation and management of urban integrated logistics hub at Tianjin Binhai New Area	RMB8,000,000	100	–
Changsha Shenzhen International Integrated Logistics Hub Development Co., Ltd.@ *	Construction, operation and management of urban integrated logistics hub at Changsha Jinxia Economic Development Zone	RMB181,000,000	100	–
Hangzhou Shenzhen International Integrated Logistics Hub Development Co., Ltd. △ *	Construction, operation and management of urban integrated logistics hub at Hangzhou Dajiangdong Industrial Cluster	USD60,000,000	100	–
Hangzhou Shenzhen International Supply Chain Management Co., Ltd. △	Supply chain management services	USD40,000,000	100	–
Xi'an Shenzhen International Integrated Logistics Hub Development Co., Ltd. △	Construction, operation and management of urban integrated logistics hub at Xi'an National Civil Aerospace Industrial Base	USD15,000,000	100	–

(All amounts in HKD thousands unless otherwise stated)

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	*Principal activities*	*Issued and fully paid share capital/ paid-in capital*	*Interest held by Group (%)*	*Non-controlling interests (%)*
Jurong Shenzhen International Integrated Logistics Hub Development Co., Ltd. @	Construction, operation and management of urban integrated logistics hub at Huayang Street	RMB70,000,000	100	–
Chongqing Shenzhen International Integrated Logistics Hub Development Co., Ltd. △	Construction, operation and management of urban integrated logistics hub at Shuangfu Town	USD7,660,000	100	–
Hefei Shenzhen International Integrated Logistics Hub Co., Ltd.@ *	Construction, operation and management of urban integrated logistics hub at Hefei Trade and Logistics Development Zone in Cuozheng Town, Feidong Country, Hefei City	RMB72,000,000	90	10
Ningbo Shenzhen International Integrated Logistics Hub Development Co., Ltd. △ *	Construction, operation and management of urban integrated logistics hub Ningnan Trade and Logistics Zone in Fenghua City, Ningbo	USD20,000,000	100	–
Kunshan Shenzhen International Integrated Logistics Hub Development Co., Ltd.@	Construction, operation and management of urban integrated logistics hub at Lujia Town, Kunshan City	RMB89,600,000	100	–
Guizhou Pengbo Investment Company Limited@	Construction, operation and management of urban integrated logistics hub at Shuanglong modern service cluster, Guizhou	RMB122,920,000	100	–
Guizhou Hengtongli Property Company Limited@	Comprehensive development of commercial properties and real estate	RMB52,229,945.55	100	–
Guizhou Hengtongsheng Logistics Co., Ltd.@	Construction, operation and management of urban integrated logistics hub at Shuanglong modern service cluster, Guizhou	RMB1,000,000	100	–
Shenzhen International Fritz Logistics Co., Ltd.@	Cargo transportation and warehousing services	RMB37,000,000	95	5

(All amounts in HKD thousands unless otherwise stated)

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	*Principal activities*	*Issued and fully paid share capital/ paid-in capital*	*Interest held by Group (%)*	*Non-controlling interests (%)*
Shenzhen Qinglong Expressway Company Limited ◇	Construction, operation and management of an expressway	RMB324,000,000	50 ▽	50
Shenzhen International Qianhai Industries (Shenzhen) Co., Ltd. △ *	Project investment and corporate management consulting services	RMB50,000,000	100	–
New Vision Limited	Investment holding	USD100	100	–
Shenzhen International Ports Development (HK) Limited	Investment holding	HKD2	100	–
Advance Great Limited	Investment holding	USD 1	100	–
Successful Plan Assets Limited	Investment holding	USD1	100	–
Shenzhen International Limited	Investment holding	HKD10,001	100	–
Shenzhen International Qianhai Development Limited	Investment holding	HKD1	100	–
Shenzhen International Qianhai Asset Management (Shenzhen) Co., Ltd.@	Real estate development and investment management	RMB5,000,000	100	–
Shenzhen International Qianhai Business Development (Shenzhen) Co., Ltd.@	Real estate development and investment management	RMB5,000,000	100	–
Changsha Shenchang Expressway Co., Ltd. @	Construction, operation and management of an expressway	RMB200,000,000	51 ▽	49
Hunan Yichang Expressway Development Co., Ltd. @	Construction, operation and management of an expressway	RMB345,000,000	100 ▽	–
Shenzhen Outer Ring Expressway Investment Co., Ltd. @	Construction, operation and management of an expressway	RMB100,000,000	100 ▽	–

△ *Foreign-owned enterprise*

◇ *Sino-foreign Joint Venture*

@ *Domestic enterprise*

^ *Foreign invested joint stock limited company*

* *For identification purpose only*

▽ *These subsidiaries are held through Shenzhen Expressway and the related interests indirectly held by the Group disclosed above represent the interests held by Shenzhen Expressway.*

#1 *The Company indirectly held 70% interests and the non wholly owned subsidiary, Shenzhen International Huatongyuan Logistics Co., Ltd., directly held 30% interests. The effective control interests is 85.3%.*

#2 *The Company indirectly held 51% interests and Shenzhen Expressway directly held 49% interests. The effective control interests is 75.94%.*

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. All subsidiaries listed above are limited liability companies. These subsidiaries are incorporated and operate in the PRC (except for New Vision Limited ("NVL"), Advance Great Limited and Successful Plan Assets Limited which are incorporated in British Virgin Islands, and Shenzhen International Ports Development (HK) Limited, Shenzhen International Limited and Shenzhen International Qianhai Development Limited which are incorporated in Hong Kong). Only NVL is directly held and wholly owned by the Company. To give details of other subsidiaries would result in particulars of excessive length.

(All amounts in HKD thousands unless otherwise stated)

41. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2017	2016
ASSETS		
Non-current assets		
Investments in subsidiaries	**4,047,717**	3,707,705
Amounts due from subsidiaries	**2,923,087**	2,987,485
	6,970,804	6,695,190
Current assets		
Other receivables	**1,201**	938
Dividends due from subsidiaries	**9,229,395**	7,479,839
Derivate financial instrument	**—**	29,528
Cash and cash equivalents	**93,713**	4,829
	9,324,309	7,515,134
Total assets	**16,295,113**	14,210,324
EQUITY AND LIABILITIES		
Share capital and share premium	**9,159,662**	8,323,602
Other reserves and retained earnings	**3,095,616**	1,333,543
Perpetual securities	**2,330,939**	—
Total equity	**14,586,217**	9,657,145
LIABILITIES		
Non-current liabilities		
Borrowings	**1,043,419**	1,206,004
	1,043,419	1,206,004
Current liabilities		
Other payables	**10,900**	4,174
Borrowings	**649,531**	3,339,104
Amount due to a subsidiary	**5,046**	3,897
	665,477	3,347,175
Total liabilities	**1,708,896**	4,553,179
Total equity and liabilities	**16,295,113**	14,210,324

The balance sheet of the Company was approved by the Board of Directors on 27 March 2018 and was signed on its behalf.

Li Hai Tao
Director

Zhong Shan Qun
Director

(All amounts in HKD thousands unless otherwise stated)

41. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Reserve movement of the Company

	Other reserves					
	Contributed surplus	*Hedging reserve*	*Currency translation reserve*	*Total other reserves*	*Retained earnings*	*Total*
At 1 January 2016	58,515	(1,483)	779,114	836,146	1,443,903	2,280,049
Comprehensive income						
Profit for the year	–	–	–	–	662,078	662,078
Other comprehensive income						
Fair value gains on derivative financial instruments	–	1,483	–	1,483	–	1,483
Currency translation difference	–	–	(660,276)	(660,276)	–	(660,276)
Total other comprehensive income/(loss)	–	1,483	(660,276)	(658,793)	–	(658,793)
Total comprehensive income/(loss)	–	1,483	(660,276)	(658,793)	662,078	3,285
Transactions with owners in their capacity as owners						
Dividends paid relating to 2015	–	–	–	–	(949,860)	(949,860)
Forfeiture of unclaimed dividend	–	–	–	–	69	69
Total transactions with owners in their capacity as owners	–	–	–	–	(949,791)	(949,791)
At 31 December 2016	58,515	–	118,838	177,353	1,156,190	1,333,543
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**1,840,518**	**1,840,518**
Other comprehensive income						
Fair value gains on derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
Currency translation difference	**–**	**–**	**763,401**	**763,401**	**–**	**763,401**
Total other comprehensive income	**–**	**–**	**763,401**	**763,401**	**–**	**763,401**
Total comprehensive income	**–**	**–**	**763,401**	**763,401**	**1,840,518**	**2,603,919**
Transactions with owners in their capacity as owners						
Dividends paid relating to 2016	**–**	**–**	**–**	**–**	**(841,938)**	**(841,938)**
Forfeiture of unclaimed dividend	**–**	**–**	**–**	**–**	**92**	**92**
Total transactions with owners in their capacity as owners	**–**	**–**	**–**	**–**	**(841,846)**	**(841,846)**
At 31 December 2017	**58,515**	**–**	**882,239**	**940,754**	**2,154,862**	**3,095,616**

42. EVENTS AFTER THE BALANCE SHEET DATE

(a) Acquisition of Coastal Expressway

As mentioned in note 39(c), on 11 December 2017, Shenzhen Expressway entered into an acquisition agreement for the acquisition of 100% equity interest in Coastal Company from SIHCL, the controlling shareholder of the Company, at a consideration of RMB1,472 million (approximately HKD1,712 million). On 8 February 2018, such agreement was approved by the independent shareholders of Shenzhen Expressway in its general meeting, and accordingly, the acquisition was completed.

(b) Issuance of the Panda Bonds

On 22 February 2017, the Company announced that it has received the approval from the China Securities Regulatory Commission(中國證券監督管理委員會,"CSRC") for the application of the issuance of corporate bonds in an aggregate principal amount not exceeding RMB5,000 million in the PRC (the "Panda Bonds"), The Company may issue the Panda Bonds in multiple tranches within a validity period of 24 months commencing from the date of the CSRC approval. In January 2018, the Company issued the first tranche of Panda Bonds of RMB300 million with a coupon rate of 5.2% per annum.

(c) Issuance of Hong Kong Dollar Senior Note

The Company entered into a subscription agreement on 22 March 2018 in relation to the issue of a 5-years Hong Kong dollar senior notes in an amount of HKD780,000,000 carrying a coupon rate of 3.75% ("HKD Senior Notes"). The HKD Senior Notes have been issued on 26 March 2018.

Shenzhen International Holdings Limited
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