上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)

2017

ANNUAL REPORT

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shen Xiao Chu *(Chairman)*
Mr. Zhou Jun *(Vice Chairman & Chief Executive Officer)*
Mr. Xu Bo *(Deputy CEO)*
Mr. Xu Zhan

Independent Non-Executive Directors

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

BOARD COMMITTEES

Executive Committee

Mr. Shen Xiao Chu *(Committee Chairman)*
Mr. Zhou Jun
Mr. Xu Bo

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

Mr. Yee Foo Hei

QUALIFIED ACCOUNTANT

Mr. Lee Kim Fung, Edward

AUTHORISED REPRESENTATIVES

Mr. Zhou Jun
Mr. Yee Foo Hei

REGISTERED OFFICE

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

COMPANY STOCK CODE

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

COMPANY WEBSITE

www.sihl.com.hk

AUDITOR

Deloitte Touche Tohmatsu

ADR DEPOSITORY BANK

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

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

INFORMATION FOR SHAREHOLDERS

SHAREHOLDER ENQUIRIES

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Facsimile : (852) 2529 5067
Email : enquiry@sihl.com.hk

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

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

Share Registrar

Tricor Secretaries Limited
Address : 22nd Floor, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2861 1465

Our Website

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

DIVIDEND

Proposed 2017 final dividend of HK48 cents per share (2016: HK46 cents per share) will be paid to shareholders on or about Tuesday, 12 June 2018 subject to shareholders' approval.

Subject to approval by shareholders of the final dividend and together with the 2017 interim dividend of HK46 cents per share (2016: HK36 cents per share and a special dividend of HK10 cents per share) paid during the year, total dividends for the year amounts to HK94 cents per share (2016: HK82 cents per share and a special dividend of HK10 cents per share).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 15 May 2018 to Wednesday, 16 May 2018, both days inclusive, during which period no transfer of shares will be effected. As such, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar by 4:30 p.m. on Monday, 14 May 2018.

For the purpose of determining shareholders' entitlement to the final dividend, the register of members of the Company will be closed on Thursday, 31 May 2018, no transfer of shares will be effected on that day. As such, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar by 4:30 p.m. on Wednesday, 30 May 2018.

FINANCIAL CALENDAR

2017 interim results announced	29 August 2017
2017 final results announced	28 March 2018
Despatch of 2017 annual report	on or about 19 April 2018
2018 annual general meeting	24 May 2018
Ex-dividend date for 2017 final dividend	29 May 2018
Record date for 2017 final dividend	31 May 2018
Despatch of notice of 2017 final dividend	on or about 12 June 2018

CHAIRMAN'S STATEMENT

Shen Xiao Chu
Chairman

It has been a great honor for me to have been appointed Chairman of the Company, an Executive Director and chairman of the Executive Committee on 28 February 2018. On behalf of the Board of Directors, I wish to take this opportunity to extend my deep gratitude to Mr. Wang Wei, our preceding Chairman, for his invaluable contributions to the Group during his tenure.

Also, I am pleased to report to our shareholders the Company's results for the year 2017.

In 2017, the global economy was volatile and confronted by mixed issues. In spite of the sound and steady growth in China and the rebound of the RMB exchange rate, the risk of inflation in Europe and America escalated while interest rates were expected to go up and international geopolitical situations remained tense. The Group continued to integrate its financing activities and business operations under the leadership of the Board and the management. Through tightening its internal control and enhancing operational efficiency, the Group achieved stable growth for its core business segments during the year. Capitalizing on capital market operations, a number of major projects were completed during the year, laying a solid foundation for the long-term development of the Group.

For the year ended 31 December 2017, the Group's net profit amounted to HK$3,150 million, representing a year on-year increase of 8.5%. The increase was mainly attributable to stable growth in profits from the infrastructure segment, higher booked revenues from the real estate business as well as steady profit contributions from consumer products. A revenue of HK$29,504 million was recorded for the year, representing an increase of 33.3% over last year.

The Board of Directors has recommended a final dividend of HK48 cents per share (2016: HK46 cents per share) for 2017. Together with an interim dividend of HK46 cents per share (2016: HK36 cents per share and a special dividend of HK10 cents per share) paid during the year, total dividends for the year amounted to HK94 cents (2016: HK82 cents per share and a special dividend of HK10 cents per share).

For the year under review, the growth momentum of the Group's three core businesses continued to prevail with steady performance. The toll roads business maintained its steady profit contributions to the Group and provided it with a strong cash flow while the water and environmental protection business continued to expand. The infrastructure facilities business recorded a profit of HK$1,533 million, representing a year-on-year increase of 9.7%. Furthermore, a number of quality assets newly acquired by the toll roads and water services businesses in recent years started to provide a positive profit contribution to the Group, further strengthening the profitability for its core businesses.

CHAIRMAN'S STATEMENT

Benefiting from high gross profit margins from sales as well as a substantial increase in booked revenue from properties, the real estate segment recorded a profit of HK$894 million during the year, representing a year-on-year increase of 18.9%, although no similar disposal gains such as the profits recorded for the disposal of a 75% interest in the "U Center" project in Shanghai in 2016 were recorded during the year.

Against the prevailing market environment and macro-economic conditions, the consumer products business maintained stable growth with a net profit of HK$1,070 million, which basically remained the same as last year.

CAPITALIZING ON MARKET OPPORTUNITIES TO SUCCESSFULLY COMPLETE MAJOR PROJECTS

To continue its development strategy of expanding the water and environmental protection operations, the Company subscribed for 350,000,000 new shares of SIIC Environment at S$0.63 per share during the year, increasing its holdings to approximately 45.95% of SIIC Environment's enlarged issued share capital immediately subsequent to the completion of the transaction.

In February 2017, the Company subscribed for 300,000,000 new shares of Canvest Environmental, a leading waste-to-energy enterprise, at HK$3.50 per share. The total investment sum is HK$1,050 million. Immediately subsequent to the completion of the subscription, the Group held approximately 15.28% of the enlarged share capital of Canvest Environmental. The increase in shareholding represents a major step forward for the Group's infrastructure segment in its efforts to adjust investment strategies for solid waste projects.

In addition, during the year, SIIC Environment commenced its application for a dual primary listing on the Main Board of the Hong Kong Stock Exchange by way of introduction. The application was successfully approved by the Hong Kong Stock Exchange. Shares of SIIC Environment have been officially quoted for trading on the Hong Kong Stock Exchange on 23 March 2018. The successful completion of the dual primary listing will further improve the mobility of the shares of SIIC Environment and expand the capital base of the company to support its long-term development.

EXPANDING INFRASTRUCTURE BUSINESS ORDERLY WHILE REALIZING PROFIT FROM NEW ASSETS

During the year, the three existing quality toll roads together with the Hangzhou Bay Bridge acquired from the parent company in 2016 continued to provide stable profits and healthy cash flow to the Group. Benefiting from a rising number of cars and tourist traffic, an overall increase in toll revenue and traffic flow was recorded. During the year, considerable efforts were made to improve operational efficiencies such as taking effective measures to prevent traffic congestions, ensuring smooth traffic flow, enhancing management standards, improving road maintenance as well as monitoring and control, all of which effectively resolved peak traffic flow issues on major holidays and key events.

For the water services business, the Group continued to expand its asset size as planned and improve the quality of its assets, further consolidating its market share in the industry. In February 2017, the Company acquired an additional shareholding interest of 3.75% in Longjiang Environmental from an independent third party at a consideration of RMB96 million, increasing the total shareholding of the Group to 98.75%. Longjiang Environmental is a leading enterprise in the water service market in Heilongjiang Province. The acquisition will enable the Group to further benefit from earnings contributions brought by the company.

Through Shanghai Galaxy and Galaxy Energy, the Group now wholly owns or has acquired the controlling interests of 11 photovoltaic power generation projects nationwide, with a total asset scale reaching 560MW. During the year, the total amount of on-grid electricity sold was approximately 716 million kWh, representing an increase of 28.7% over the previous year. While continuing to pursue more potential acquisitions, Galaxy Energy will also refine the management of its existing projects to improve efficiency.

RESTRUCTURING AND OPTIMIZING ITS ASSET STRUCTURE AND IMPLEMENTING STRATEGIC MEASURES FOR REAL ESTATE BUSINESS

Capitalizing on opportunities arising from the buoyant property market, the Group's real estate business achieved satisfactory results during the year. This has been achieved through further strengthening of its business development and marketing capabilities as well as giving additional efforts to promote the development of emerging industries.

During the year, the Group's real estate assets were restructured to optimize resources allocation. In November, Shanghai Urban Development, a non-wholly owned subsidiary of SI Urban Development, disposed of its entire equity interest in two property management companies, Shenda Property and SUD Commercial, for RMB70 million and RMB17 million respectively to the wholly-owned subsidiaries of SI Development. Such transactions will enable SI Urban Development to focus on property developments in Shanghai as well as first-tier and second-tier core cities in the country and to divest its non-core property management business. At the same time, it will help SI Development to rapidly expand the scale of its property management business, thus consolidating its position in the industry.

CHAIRMAN'S STATEMENT

In June, SI Development won a bid for the purchase of the land use right for a land parcel located in Mudu Town, Wuzhong District, Suzhou, Jiangsu at a price of RMB2,196.60 million. The piece of land is for residential use with a site area of 40,816.9 square meters and a plot ratio of 2.2. In addition, through its wholly-owned subsidiaries, SI Development acquired from SIIC the entire interest in the E1B project and 80% equity interest in SSCAM at a consideration of RMB187 million and RMB13.72 million, respectively. The E1B project refers to the land use right of a site area covering 13,110 square metres, located at the Paojiang Industrial Zone, Shaoxing, Zhejiang, with a total gross floor area of 33,211.44 square metres, which is for office and commercial use. With the completion of the development in August, SI Development's rental income is expected to further increase with potential for capital appreciation in the future. SSCAM is a property management enterprise and the acquisition further improved the property management quality of SI Development and enhanced its profitability.

In order to replenish its quality land reserves at a reasonable cost, and to consolidate its strategy to focus its development in the Shanghai district, SI Urban Development won in 2017 a bid for the acquisition of a land plot located in the Minhang District in Shanghai for RMB2,220 million. With a total gross floor area of approximately 118,000 square metres, the piece of land is for commercial use. The phase I residential portion of TODTOWN under the metro superstructure project jointly developed by SI Urban Development, SHK Properties and the Shanghai government, is planned to be launched in 2018. And subsequent to the year end, through its subsidiaries, SI Urban Development acquired in January from SIIC a 100% equity interest in Shanghai Shangtou for approximately RMB530 million and in February a 35% equity interest in NR Investment for RMB88.33 million. Shanghai Shangtou holds two secondary land development projects and NR Investment is principally engaged in primary land development in China. The acquisitions are in line with the Group's moves for asset structure optimization and strategic integration of its real estate business.

EXPANDING NEW ARENAS AND PROMOTING OPERATIONAL EFFICIENCY FOR CONSUMER PRODUCTS BUSINESS

During the year, Nanyang Tobacco experienced considerable changes in the external environment. Through continuous development of new products and exploration of new markets, including the active development of the countries and markets along the "One Belt and One Road", Nanyang Tobacco successfully boosted the popularity of the century-old national brand "Double Happiness" in the surrounding markets. With the objective of achieving a scalable growth for the company through new product development and upgrading, satisfactory results are expected to be achieved through expansions into countries in Central Asia. Capitalized on its distinctive features, Nanyang Tobacco also comprehensively improved its production technology.

CHAIRMAN'S STATEMENT

The year 2017 was a critical year for the business transformation of Wing Fat Printing. In face of severe challenges from the market and the external environment, the management of the company succeeded in driving business forward with their strong will and execution capability. As a result, the company managed to make progress in both new and traditional businesses. In just three years, the new exquisite high-end moulded fiber packaging business has become a new driver for strategic transformation of the century-old Wing Fat Printing and new power engine for its growth.

PROSPECTS

Going forward, the Group will continue to maintain the growth momentum for the development of its infrastructure facilities business while actively explore investment opportunities in such areas as new infrastructure business models, new environmental protection businesses and new arenas in clean energy. For toll roads, the Group will continue to streamline its management and continue with its efforts to control cost and increase efficiency for better investment gains.

For the real estate business, the Group will continue to enhance its asset structure and project planning activities while further improving management capabilities and profit contributions of its commercial assets. At the same time, we will monitor carefully the pace of our development, adopt a positive and flexible marketing strategy to fully accomplish our sales and profit targets.

Nanyang Tobacco is expected to maintain its stable sales and profits through further expansion of markets, optimizing product mix and strengthening technological transformation. In addition, efforts will be made to strengthen its internal management, control cost and take appropriate measures to prevent exchange risk. Wing Fat Printing will strive to enhance its operational and management ability in the traditional cigarette and wine packaging businesses as well as its new exquisite moulded fiber business with the intention to maintain positive business and profit growth.

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

Shen Xiao Chu
Chairman

Hong Kong, 28 March 2018





SIHL AT A GLANCE

Shanghai Industrial Holdings Limited ("SIHL", HKSE stock code: 363) was incorporated in Hong Kong in January 1996, and on 30 May of the same year was listed on the Stock Exchange of Hong Kong. SIHL is a constituent stock of the MSCI China Index and Hang Seng Composite Index, and an eligible stock of Shanghai-Hong Kong Stock Connect. As at the end of 2017, the company's total assets reached HK$171.3 billion and profits attributable to shareholders were HK$3.15 billion.

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

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

GROUP BUSINESS STRUCTURE

As at 28 March 2018

SIIC

INFRASTRUCTURE FACILITIES

TOLL ROADS / BRIDGE

- **100%** Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd.
- **100%** Shanghai Luqiao Development Co., Ltd.
- **100%** Shanghai Shen-Yu Development Co., Ltd.
- **23.0584%** Ningbo Hangzhou Bay Bridge Development Co., Ltd.

WATER SERVICES

- **46.31%** SIIC Environment Holdings Ltd. (BHK SGX; 807 HKSE)
- **45%** General Water of China Co., Ltd.

REAL ESTATE

- **48.60%** Shanghai Industrial Development Co., Ltd. (600748 SSE)
- **69.96%** Shanghai Industrial Urban Development Group Limited (563 HKSE)

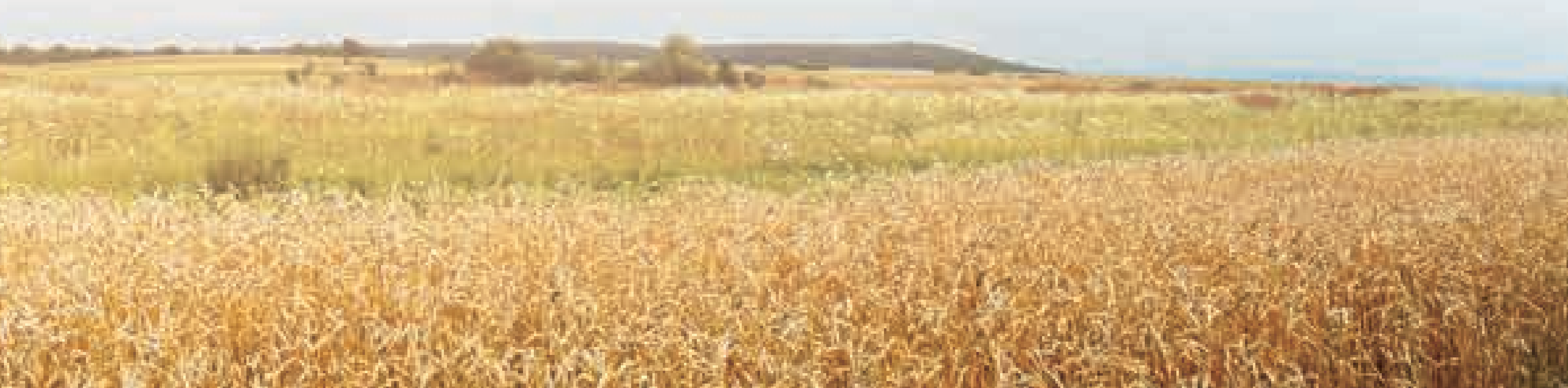
CONSUMER PRODUCTS

TOBACCO

- **100%** Nanyang Brothers Tobacco Company, Limited

PRINTING

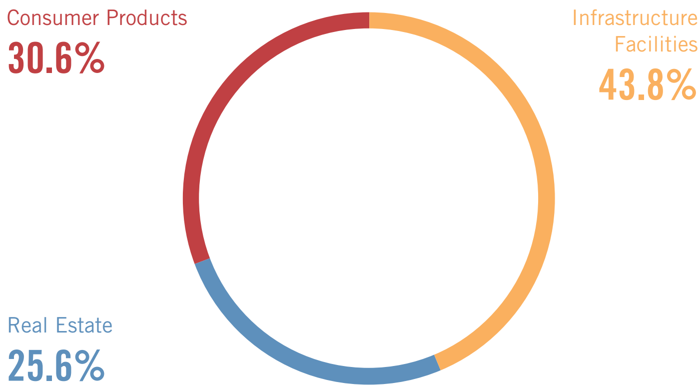
- **94.29%** The Wing Fat Printing Company, Limited

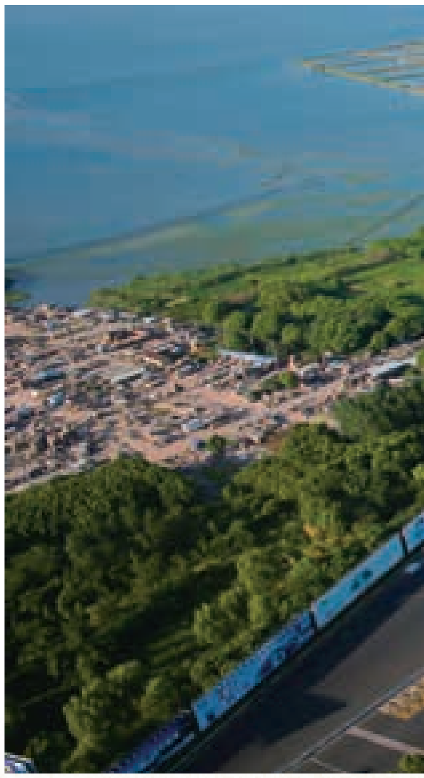


BUSINESS REVIEW, DISCUSSION AND ANALYSIS

For the year ended 31 December 2017, the audited profits attributable to shareholders of the Group was HK$3,150 million, representing a year-on-year increase of 8.5%. The increase was mainly attributable to stable growth in profits from the infrastructure segment, higher booked revenues from the real estate business as well as steady profit contributions from consumer products. A revenue of HK$29,504 million was recorded for the year, representing a 33.3% increase over last year. During the year, the Group successfully completed a number of major projects. Through mergers and acquisitions, strategic asset-restructuring, as well as increased efforts to strengthen our principal business and to explore new business, the Group has broadened its earnings base and realised the potential value of its projects. In addition, our business scale has been further expanded, thereby stabilizing our operations and profits for the whole year and achieved our overall strategic goals.

Profit contributions from the Group's core businesses





BUSINESS REVIEW, DISCUSSION AND ANALYSIS

INFRASTRUCTURE FACILITIES

The infrastructure facilities business of the Group recorded a profit of HK$1,533 million for the year, representing an increase of 9.7% over last year and accounting for 43.8% of the Group's Net Business Profit. The toll roads business continued to provide stable profits and cash flows to the Group; our newly acquired assets also generated additional profits. The scale of our water and environmental protection business expanded steadily. The Group will continue to identify future merger and acquisition as well as development opportunities from various fields in the industry for further growth.

Toll roads/bridge

In 2017, the three toll roads and Hangzhou Bay Bridge under the Group recorded overall growth in toll revenue and traffic flow. Through measures taken to prevent traffic congestions, peak traffic flow on holidays such as the Spring Festival, the Tomb Sweeping Day, the Labour Day, the National Day and other important occasions was effectively resolved. As a result, road and traffic conditions remained smooth and stable and road safety operations were ensured.

The key operating figures of the respective tolls roads/bridge are as follows:

Toll roads/bridge	Interest attributable to the Group	Net profit attributable to the Group	Change	Toll revenue	Change	Traffic flow (vehicle journey)	Change
Jing-Hu Expressway (Shanghai Section)	100%	HK$372 million	+21.2%	HK$709 million	+2.6%	57.70 million	+6.9%
Hu-Kun Expressway (Shanghai Section)	100%	HK$446 million	+11.5%	HK$1,083 million	+5.5%	58.02 million	+6.3%
Hu-Yu Expressway (Shanghai Section)	100%	HK$209 million	+18.8%	HK$602 million	+14.7%	42.38 million	–2.8%
Hangzhou Bay Bridge	23.0584%	HK$119 million	+47.9%	HK$1,822 million	+15.4%	13.34 million	+12.3%
Total		**HK$1,146 million**	**+19.0%**	**HK$4,216 million**	**+10.3%**	**171.44 million**	**+4.5%**

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Benefitting from a rising number of vehicles using the highway, the traffic flow for Jing-Hu Expressway (Shanghai Section) has maintained its growth. During the year, the project company, Hu-Ning Expressway further improved its toll collection efficiency and quality through competition activities. A road safety competition under the theme "Safety 360" was organized to promote safety management standards and employees' safety awareness. To cope with continuous increases in traffic flow for the electronic toll collection (ETC) lanes, the facilities at the Jiangqiao toll station was improved and transformed. As a result, entrance traffic operation efficiency during peak hours was enhanced by 14%. During the year, "pre-maintenance" work was implemented and special projects such as pavement renovations in the section leading to the town and road improvement in Motor City interchange and outer ring interchanges were conducted to ensure road safety operations. Hu-Ning Expressway acquired approximately 11.27% shareholdings in Wufangzhai held by Shanghai Galaxy for a total consideration of RMB162,764,700. Completed in the first half of 2017, the transaction raised Hu-Ning Expressway's interest in Wufangzhai to approximately 23.97%. This has been accounted for in the Group's accounts by way of equity accounting and the increased shareholdings are expected to contribute higher profits to the project company.

By adhering to the principle of making progress while maintaining stability, Hu-Kun Expressway (Shanghai Section) maintained stable growth in annual toll revenue and traffic flow. During the year, the project company continued to take routine measures to prevent traffic congestions and ensure smooth traffic flows, fully utilized effective customer service systems, strengthened on-site management of ETC lanes and improved all-rounded emergency measures to ensure safe and smooth traffic flows at toll lanes. During the year, under the guidance of establishing a demonstration enterprise with safety culture, the project company further strengthened safety operations, promoted safety culture among its employees and successfully completed all necessary requirements to become a role model for a municipal enterprise with a safety culture. In addition, Hu-Kun Expressway (Shanghai Section) has transformed the Fengjing Service Area into a place under the theme of "Spring Station". As the only expressway service area that has won the title of "demonstration service area" in Shanghai, Fengjing Service Area successfully passed a review taken every two years.

Although the resumption of toll collection by the Jiasong toll station of the Hu-Yu Expressway (Shanghai Section) in the beginning of the year and the close of the temporary ramps at Huting North Road in July affected traffic flow of the section to some extent, toll revenue recorded stronger growth due to the resumption and continuous growth in motor vehicle parc as well as increases in travelling and the opening of Jiudu Road toll station in July. In respect of changes at the above toll stations and sections together with possible public responses, the project company actively

communicated with relevant government departments and implemented a large number of traffic security measures and carried out respective propaganda work. With concerted efforts from all parties, the toll collection and opening of toll stations as well as the close of temporary ramps were all in a steady and orderly manner and traffic conditions resumed to normal. During the year, continued toll competitions have led to enhanced toll collection quality and efficiency. Traffic outflow at the toll stations in the urban area of Qingpu increased by almost 18% year-on-year, which effectively reduced congestions during peak hours. The Lanlu Port Bridge of the road, the only bridge project representing Shanghai municipal city for the national trunk highway network inspection conducted during the year, was highly commended by the inspection team for the detailed and comprehensive preparation work made by the project company for the inspection exercise and the great efforts it has put into the daily operation.

The Group acquired a 23.0584% interest in the Hangzhou Bay Bridge project during the last financial year which is in line with the Group's development strategy for its toll roads business. The acquisition has reinforced the asset portfolio of its infrastructure facilities business and increased the operating profits of the segment. The operational efficiency of the Hangzhou Bay Bridge continued to improve, and its traffic flow and toll revenue recorded satisfactory growth in 2017, benefitting from the resumption of original toll levels and the implementation of favorable policies in Zhejiang province for ETC vehicles to pay toll according to actual routes, as well as lesser impact from bad weather conditions such as fog and snow. By adopting first class bridge-building technology, the Hangzhou Bay Bridge has a safe structure. Both the south-shore and north-shore service areas on the bridge were selected as the "National Top 100 Demonstration Service Areas" during the year, and the scenic area of Haitian Island was awarded by the Ningbo government as an "Excellent Tourist Attraction".

Water services

The Group's environmental protection and water business has developed rapidly in recent years through mergers and acquisitions as well as its organic growth. Total water treatment capacity has increased by more than 10 million tonnes and the Group's future investments will still be focused on the development of municipal sewage treatment, waste-to-energy and industrial sewage treatment and other environmental protection-related fields.

In January 2017, the Company subscribed for 350,000,000 new ordinary shares in SIIC Environment at a placement price of S$0.63 per share, which was approved by the independent shareholders of SIIC Environment. Completed in May, the share subscription and increase in shareholdings in SIIC Environment are considered to be in line with the Group's development strategy of expanding its infrastructure facilities business.

In addition, in February 2017, the Company, through its wholly-owned subsidiary subscribed for 300,000,000 new ordinary shares of Canvest Environmental at HK$3.50 per share for a total investment sum of HK$1,050 million. The transaction was completed and both parties will work together for the strategic development of waste-to-energy business.

Also in February of the same year, the Company, through its wholly-owned subsidiary indirectly acquired an additional 3.75% shareholding interest in Longjiang Environmental at a consideration of RMB96 million, increasing the Group's shareholding to 98.75%. The transaction will enable the Group to further benefit from the earnings contributions brought by Longjiang Environmental, and is in line with the Group's development strategy of investing its water services business in the northeastern region of the PRC, especially in the Heilongjiang Province.

SIIC Environment

SIIC Environment recorded an annual revenue of RMB4,639 million for 2017, representing a year-on-year growth of 75.2%. The increase in revenue was mainly attributable to the newly constructed BOT (build-operate-transfer) projects which resulted in an increase of urban EPC (engineering, procurement and construction) revenue and revenue contributions from newly acquired enterprises. Profits increased by 17.7% year-on-year to RMB536 million, mainly due to profit contributions from newly constructed BOT projects and from newly acquired enterprises.

During the year, SIIC Environment commenced its application for a dual primary listing on the Main Board of the Hong Kong Stock Exchange by way of introduction. Relevant resolutions had been approved by its shareholders at the extraordinary general meeting held on 29 January 2018, and in early March, SIIC Environment was approved in principle for listing by the Hong Kong Stock Exchange. The shares of SIIC Environment commenced official trading on the Hong Kong Stock Exchange on 23 March 2018. It is expected that the dual listing will offer more mobility for shareholders' trading of the respective stock and to further expand the capital base of the company to support its long-term development.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In January 2017, Longjiang Environmental acquired in cash a 100% equity interest of CITIC Envirotech Water for RMB111.87 million. The company is operating two sewage treatment plants and a water recycling project in Hegang City, Heilongjiang, the PRC with a designed daily capacity of 110,000 tonnes.

In July, SIIC Environment acquired the entire share capital of Pinghu Dushan Sewage at a consideration of RMB9.11 million. Pinghu Dushan Sewage is licensed to engage in public sewage treatment until 19 July 2067, and was given to operate a PPP project for sewage treatment plant in eastern Pinghu, Zhejiang, China, with a daily capacity of 220,000 tonnes.

In August, Longjiang Environmental acquired the entire share capital of Jiaohe Jiaxin Water at a consideration of RMB95 million. Jiaohe Jiaxin Water is operating a 30-year BOT sewage treatment project with a total designed daily capacity of 30,000 tonnes.

The process of urbanisation in China and requirements for a better living environment is favorable to the company's business development strategy which focuses on investments in environmental protection business such as sewage treatment and waste-to-energy. Going forward, SIIC Environment will continue to explore additional financing channels, expand the scale of its business through organic growth and external mergers and acquisitions as well as to streamline its internal management and control systems and to enhance the company's brands and recognition.

General Water of China

General Water of China recorded net profits of HK$172 million for 2017 with a year-on-year decrease of 5.6%. Revenue amounted to HK$1,985 million, a year-on-year increase of 2.2%. As at the end of 2017, General Water of China owned 30 water supply facilities and 27 sewage treatment plants with a total daily capacity of 6,622,500 tonnes, among which, total water production daily capacity was 4,265,000 tonnes and daily sewage treatment capacity was 2,437,500 tonnes, and two reservoirs with a gross storage tank volume of 18,232,000 tonnes and a pipe network of 6,030 kilometres in total. General Water of China has been awarded one of the Top 10 Most Influential Enterprises in China's Water Industry for the 14th consecutive year, ranking the fifth.

During the year, the development of municipal water supply and drainage projects were carried out by General Water of China through a variety of channels. While new regional markets were being developed, the company capitalized on the competitiveness of the area where the project companies are located. Adhering to its regional market development strategy, General Water of China has broadened its coverage to the surrounding markets. In addition, new business arenas were explored, and a number of projects were investigated in order to obtain valuable business resources. Capitalized on its own brand and the advantage of its resources, the company also took part in tenders for relevant projects and carried out subsequent reviews according to the Group's overall plans for its environmental water projects, which has effectively supported the sustainable and healthy development of the Group's water business segment.

By focusing on enlarging pipe network coverage and developing the reporting and installation business, the respective project companies further expanded their water supply services during the year, with new users increased by approximately 100,000, which greatly increased the revenues for these companies. In addition, the Class 1A upgrading project in eastern Wenzhou was completed for overall testing and final acceptance of the construction and installation project was also completed. The Class 1A upgrading and expansion project for a sewage treatment plant in river east of Xiangtan was at the final settlement stage. The 240T/D sludge centralized drying incineration project in Wenzhou had successfully passed the completion examination. Xiangtan no. 3 water plant quality upgrading and expansion project had held its inauguration ceremony and the project is expected to be completed and put into production in June of 2019. With the joint efforts of all parties, the Suifenhe project received financial subsidies and compensations from the municipal government and operational cash flow was improved significantly.

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Details of the water development projects under the Group as at 31 December 2017 are as follows:

	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/Reclaimed water treatment projects						
1	Auhui	Sewage treatment plant project in Chemical Industrial Park, Hefei	Sewage treatment	30,000	60%	The project is in operation.
2	Auhui	Sewage treatment plant project in southern Lingbi	Sewage treatment	50,000	46.3750%	The project is in operation.
3	Auhui	Sewage treatment plant project in northern Lingbi	Sewage treatment	20,000	46.3750%	The project is under construction.
4	Auhui	Phase I of water recycling project of sewage treatment plant in southern Lingbi	Reclaimed water treatment	25,000	46.3750%	The project is yet to commence construction.
5	Fujian	Sewage treatment plant BOT project in Longmen Town, Anxi, Quanzhou	Sewage treatment	50,000	91.203%	• Phase I of the project is in operation. • Phase II of the project is yet to commence construction.
6	Guangdong	Sewage treatment plant BOT project in Dalang, Dongguan	Sewage treatment	100,000	75.5%	The project is in operation.
7	Guangdong	Sewage treatment plant BOT project in Shayao, Shijie, Dongguan	Sewage treatment	60,000	75.5%	The project is in operation.
8	Guangdong	Sewage treatment plant in Yantian, Fenggang, Dongguan	Sewage treatment	50,000	75.5%	The project is in operation.
9	Guangdong	Phase I, phase II and phase III of sewage treatment project in Meihu, Huizhou	Sewage treatment	300,000	91.203%	• Phase I and phase II of the project are in operation. • Phase III of the project is under construction.
10	Guangdong	Sewage treatment projects in Longgang, Shenzhen	Sewage treatment	280,000	91.203%	The project is in operation.
11	Guangdong	Water recycling plant project in Henggang, Shenzhen	Reclaimed water treatment	50,000	91.203%	The project is in operation.
12	Guangdong	Sewage treatment plant project in Banxuegang, Shenzhen	Sewage treatment	40,000	91.203%	The project is in operation.
13	Guangdong	Sewage treatment plant project in Guanlan, Shenzhen	Sewage treatment	260,000	54.722%	The project is in operation.
14	Guangdong	Sewage treatment emergency operation entrustment project in Guanlan River, Shenzhen	Sewage treatment	400,000	54.722%	The project is in operation.
15	Guangdong	Sewage treatment plant TOT project in Wuchuan, Zhanjiang	Sewage treatment	40,000	91.203%	The project is in operation.
16	Guangxi	City sewage treatment plant BOT project in Beiliu	Sewage treatment	40,000	75.5%	The project is in operation.
17	Heilongjiang	Sewage treatment plant TOT project in Anda	Sewage treatment	45,000	57.7109%	The project is in operation.
18	Heilongjiang	Sewage treatment plant TOT project in Baoqing	Sewage treatment	20,000	57.9687%	The project is in operation.

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	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/Reclaimed water treatment projects						
19	Heilongjiang	City sewage treatment plant no. 2 project in Fujin	Sewage treatment	10,000	57.9687%	The project is in operation.
20	Heilongjiang	Sewage treatment plant BOT project in Fujin	Sewage treatment	15,000	57.1307%	The project is in operation.
21	Heilongjiang	Phase I of sewage treatment plant TOT project in Acheng, Haerbin	Sewage treatment	50,000	57.9687%	The project is in operation.
22	Heilongjiang	Phase II of sewage treatment plant BOT project in Acheng, Haerbin	Sewage treatment	50,000	57.9687%	The project is in operation.
23	Heilongjiang	Sewage treatment operation entrustment project in Hulan, Haerbin	Sewage treatment	20,000	57.9687%	The project is in operation.
24	Heilongjiang	Sewage treatment plant BOT project in Pingfang, Haerbin	Sewage treatment	150,000	57.3241%	The project is in operation.
25	Heilongjiang	Sewage treatment plant BOT project in Taiping, Haerbin	Sewage treatment	325,000	57.9687%	The project is in operation.
26	Heilongjiang	Sewage treatment plant TOT project in Wenchang, Haerbin	Sewage treatment	325,000	57.9687%	The project is in operation.
27	Heilongjiang	Upgrading BOT project in Wenchang, Haerbin	Sewage treatment	650,000	57.9687%	The project is in operation.
28	Heilongjiang	Sewage treatment plant BOT project in Xinyi, Haerbin	Sewage treatment	100,000	57.3241%	The project is in operation.
29	Heilongjiang	Sewage treatment plant BOT project in Heihe	Sewage treatment	25,000	57.5819%	The project is in operation.
30	Heilongjiang	Sewage treatment plant BOT project in Jixi	Sewage treatment	50,000	57.9687%	The project is in operation.
31	Heilongjiang	Phase II of sewage treatment plant BOT project in Jixi	Sewage treatment	50,000	57.9687%	The project is in operation.
32	Heilongjiang	Recycling water project in Jixi	Reclaimed water treatment	5,000	57.9687%	The project is under construction.
33	Heilongjiang	Sewage treatment plant BOT project in eastern Jiamusi	Sewage treatment	60,000	56.3572%	The project is in operation.
34	Heilongjiang	Phase II of sewage treatment plant BOT project in eastern Jiamusi	Sewage treatment	40,000	56.3572%	The project is under construction.
35	Heilongjiang	Upgrading project of sewage treatment plant in eastern Jiamusi	Sewage treatment	100,000	56.3572%	The project is under construction.
36	Heilongjiang	Sewage treatment plant BOT project in western Jiamusi	Sewage treatment	50,000	56.3572%	The project is in operation.
37	Heilongjiang	Phase II of sewage treatment plant in western Jiamusi	Sewage treatment	50,000	56.3572%	The project is yet to commence operation.
38	Heilongjiang	Water recycling consolidated project in Jiamusi	Reclaimed water treatment	40,000	56.3572%	The project is yet to commence operation.
39	Heilongjiang	Sewage treatment plant TOT project in Mudanjiang	Sewage treatment	100,000	57.9687%	The project is in operation.

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	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/Reclaimed water treatment projects						
40	Heilongjiang	Phase II of sewage treatment plant BOT project in Mudanjiang	Sewage treatment	100,000	57.9687%	The project is in operation.
41	Heilongjiang	Sewage treatment plant BOT project in Ningan	Sewage treatment	20,000	57.5389%	The project is in operation.
42	Heilongjiang	Sewage treatment plant TOT project in Shangzhi	Sewage treatment	40,000	57.9687%	The project is in operation.
43	Heilongjiang	Sewage treatment plant TOT project in Shuangyashan	Sewage treatment	50,000	57.9687%	The project is in operation.
44	Heilongjiang	Phase II of sewage treatment plant BOT project in Shuangyashan	Sewage treatment	50,000	57.9687%	The project is in operation.
45	Heilongjiang	Sewage treatment operation entrustment project in Youyi, Shuangyashan	Sewage treatment	10,000	57.9687%	The project is in operation.
46	Heilongjiang	Water recycling consolidated project in Shuangyashan	Reclaimed water treatment	40,000	29.5640%	The project is under construction.
47	Heilongjiang	Phase I of upgrading project in Shuangyashan	Sewage treatment	50,000	29.5640%	The project is under construction.
48	Heilongjiang	Consolidated BOT project in Shaodong	Sewage treatment	50,000	57.1307%	The project is in operation.
49	Heilongjiang	Sewage treatment plant no. 2 in Shaodong	Sewage treatment	20,000	57.1307%	The project is under construction.
50	Heilongjiang	Upgrading project of sewage treatment plant in Shaodong	Sewage treatment	50,000	57.1307%	The project is in operation.
51	Heilongjiang	Sewage treatment plant in eastern Hegang	Sewage treatment	30,000	57.9687%	The project is in operation.
52	Heilongjiang	Sewage treatment plant in western Hegang	Sewage treatment	50,000	57.9687%	The project is in operation.
53	Heilongjiang	Phase II of sewage treatment and water recycling project in eastern Hegang	Sewage treatment	30,000	57.9687%	The project is yet to commence construction.
54	Heilongjiang	Phase II of sewage treatment and water recycling project in western Hegang	Sewage treatment	50,000	57.9687%	The project is yet to commence construction.
55	Heilongjiang	Water recycling plant project in Hegang	Reclaimed water treatment	30,000	57.9687%	The project is yet to commence operation.
56	Heilongjiang	Sewage treatment plant in Fuyuan	Sewage treatment	10,000	57.9687%	The project is in operation.
57	Heilongjiang	Deodorization engineering project in Wenchang, Taiping	Sewage treatment	30,000	57.9687%	The project is under construction.
58	Heilongjiang	Plant no. 2 project in Hulan	Sewage treatment	30,000	57.9687%	The project is under construction.
59	Henan	Sewage treatment plant BOT project in Dongcheng, Luohe	Sewage treatment	20,000	75.5%	The project is in operation.
60	Henan	Sewage treatment project in southern Baihe, Nanyang	Sewage treatment	100,000	69.113%	The project is in operation.

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	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/Reclaimed water treatment projects						
61	Hubei	Sewage treatment project in Cihu, Huangshi	Sewage treatment	125,000	100%	The project is in operation.
62	Hubei	Sewage treatment project in Hanxi, Wuhan	Sewage treatment	600,000	80%	• Phase I and phase II of the project are in operation. • The phase I and phase II upgrading projects are under construction.
63	Hubei	Sewage treatment project in Qianchuan, Wuhan	Sewage treatment	30,000	100%	• The project is in operation. • The upgrading and expansion projects are under construction.
64	Hubei	Sewage treatment project in Panlong, Wuhan	Sewage treatment	45,000	100%	• Phase I and phase II of the project are in operation. • The upgrading project is under construction.
65	Hubei	Sewage treatment project in the Wuhan New Town	Sewage treatment	60,000	100%	The project is in operation.
66	Hubei	Sewage treatment plant project in Wuhu, Wuhan	Sewage treatment	25,000	100%	The trial operation of the project is completed.
67	Hubei	Sewage treatment plant project in southern Suizhou	Sewage treatment	50,000	92.15%	The project is under construction.
68	Hunan	Sewage treatment BOT project in Linwu, Chenzhou	Sewage treatment	10,000	18.241%	The project is in operation.
69	Hunan	Sewage treatment project in Chenzhou	Sewage treatment	120,000	91.203%	The project is in operation.
70	Hunan	Sewage treatment plant BOT project in Taohuajiang, Taojiang	Sewage treatment	20,000	75.5%	The project is in operation.
71	Hunan	Sewage treatment plant BOT project in the new zone of eastern Gaoxin, Yiyang	Sewage treatment	30,000	75.5%	The project is in operation.
72	Hunan	Sewage treatment plant BOT project in northern Yiyang	Sewage treatment	80,000	75.5%	• Phase I of the project is in operation. • Phase II of the project is under construction.
73	Inner Mongolia	Sewage treatment BOT project in Dazhuangyuan Roulian Plant, Xilinhot	Sewage treatment	3,500	57.9687%	The project is under construction.
74	Inner Mongolia	Sewage treatment plant BOT project in Xilinhot	Sewage treatment	40,000	57.9687%	The project is under construction.
75	Jiangsu	Sewage treatment franchise and sewage treatment plant BOT project at Newport Park, Jingjiang	Sewage treatment	80,000	91.203%	• Phase I of the project is in operation. • Phase II of the project is yet to commence construction.
76	Jiangsu	Sewage treatment plant project in southern Shuyang	Sewage treatment	60,000	91.203%	The project is in operation.
77	Jiangsu	Sewage treatment plant franchise project in Huangqiao, Taixing	Sewage treatment	50,000	91.203%	• Phase I of the project is in operation. • Phase II of the project is yet to commence construction.

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	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/Reclaimed water treatment projects						
78	Jiangsu	Industrial sewage treatment plant project in Huangqiao, Taixing	Sewage treatment	20,000	91.203%	The project is under construction.
79	Jiangsu	Phase I and phase II of sewage treatment plant project in Guanyinshan, Nantong	Sewage treatment	73,000	92.15%	The project is in operation.
80	Jiangxi	Sewage treatment project in Chongren Industrial Park, Fuzhou	Sewage treatment	10,000	60%	The project is in trial operation.
81	Jiangxi	Sewage treatment plant project in Yihuang Industrial Park, Fuzhou	Sewage treatment	5,000	60%	The project is in operation.
82	Jiangxi	Sewage treatment plant project in Yongxin Industrial and Development Zone, Ji'an	Sewage treatment	10,000	60%	The project is in trial operation.
83	Jiangxi	Phase I and phase II of sewage treatment plant project in Xiaolan Economic and Development Zone, Nanchang	Sewage treatment	75,000	60%	The project is in operation.
84	Jiangxi	Sewage treatment plant project in Wanzai Industrial Park, Yichun	Sewage treatment	12,500	60%	• 50,000 tonnes of phase I of the project are in operation. • The remaining 75,000 tonnes are under construction.
85	Jiangxi	Phase I of sewage treatment plant project in Industrial Zone of Yongfeng	Sewage treatment	10,000	60%	The project is under construction.
86	Jilin	Sewage treatment plant engineering project in Yingcheng, Jiutai, Changchun	Sewage treatment	15,000	57.9687%	The project is under construction.
87	Jilin	Sewage treatment plant engineering project in Industrial and Development Zone of Panshi	Sewage treatment	10,000	57.9687%	The project is under construction.
88	Jilin	Sewage treatment plant engineering project in Economic and Development Zone of Mingcheng, Jilin	Sewage treatment	2,500	57.9687%	The project is under construction.
89	Jilin	Sewage treatment plant project in Jiaohe	Sewage treatment	25,000	57.9687%	The project is in operation.
90	Liaoning	Sewage treatment plant in new zone of Puwan, Dalian	Sewage treatment	50,000	92.65%	• 30,000 tonnes of the project are under construction. • The remaining 20,000 tonnes of the project are yet to commence construction.
91	Liaoning	Sewage treatment plant BOT project in Dalian Bay, Dalian	Sewage treatment	40,000	75.5%	The project is under construction.
92	Liaoning	Sewage treatment plant BOT project in Quanshui River, Dalian	Sewage treatment	105,000	75.5%	The project is yet to commence construction.
93	Liaoning	Sewage treatment project in northern Economic and Technological Development Zone of Yingkou	Sewage treatment	30,000	60%	The project is in operation.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/Reclaimed water treatment projects						
94	Ningxia Hu Autonomous Region	Sewage treatment plant no. 5 project in Yinchuan	Sewage treatment	100,000	100%	• 50,000 tonnes of the project are in operation. • The reconstruction of the remaining 50,000 tonnes of the project was completed. The project is in trial operation.
95	Ningxia Hu Autonomous Region	Sewage treatment plant BOT project in Binhe New Zone, Yinchuan	Sewage treatment	50,000	100%	The project is in operation.
96	Ningxia Hu Autonomous Region	Sewage treatment plant no. 5 with reclaimed water treatment ancillary facilities project in Yinchuan	Reclaimed water treatment	50,000	100%	The project is yet to commence construction.
97	Shandong	Sewage treatment plant TOT project in Dezhou	Sewage treatment	100,000	75.5%	The project is in operation.
98	Shandong	Sewage treatment plant BOT project in western Weifang	Sewage treatment	40,000	75.5%	The project is in operation.
99	Shandong	Sewage treatment plant BOT project in Weifang High Technology Industrial Development Zone	Sewage treatment	50,000	75.5%	The project is in operation.
100	Shandong	Sewage treatment plant reclaimed water treatment project in Weifang	Reclaimed water treatment	38,500	75.5%	The project is in operation.
101	Shandong	Sewage treatment plant project in Weifang	Sewage treatment	200,000	75.5%	The project is in operation.
102	Shandong	Sewage treatment plant franchise project in Shanting, Zaozhuang	Sewage treatment	20,000	75.5%	The project is in operation.
103	Shandong	Sewage treatment plant TOT + BOT project in Yicheng, Zaozhuang	Sewage treatment	40,000	75.5%	The project is in operation.
104	Shanghai	Sewage treatment plant no. 2 project in Qingpu, Shanghai	Sewage treatment	180,000	100%	• 120,000 tonnes of the project are in operation. • 60,000 tonnes of the project are under construction.
105	Shanghai	Phase I and phase II of sewage treatment BOT project in western Fengxian, Shanghai	Sewage treatment	200,000	73.72%	• 150.000 tonnes of the project are in operation. • 50,000 tonnes of the project are under construction.
106	Zhejiang	Sewage treatment project in Duqiao Medical and Chemical Industrial Park, Taizhou	Sewage treatment	25,000	100%	• Phase I of the project are in operation. • Phase II of the project was completed. The project is in trial operation.
107	Zhejiang	Sewage treatment plant BOT project in Xiaocaoe, Yuyao	Sewage treatment	225,000	69.113%	The project is in operation.
108	Zhejiang	Sewage pretreatment plant BOT project in Zhacai, Yuyao	Sewage treatment	3,000	69.113%	The project is in operation.
109	Zhejiang	Sewage treatment plant BOT project in Binhai, Huangjiabu, Ningbo	Sewage treatment	30,000	64.505%	The project is in operation.
110	Zhejiang	Water treatment plant project in the new zone of Hangzhou Bay, Cixi	Sewage treatment	150,000	64.505%	The project is in operation.
111	Zhejiang	Sewage treatment plant project in northern Cixi	Sewage treatment	100,000	59.898%	The project is in operation.
112	Zhejiang	Sewage treatment plant project in eastern Pinghu	Sewage treatment	220,000	100%	The project is in operation and under reconstruction.
Total				**8,728,000**		

	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Water supply projects						
1	Heilongjiang	Water supply plant TOT project in Mudanjiang	Water supply	300,000	57.9623%	The project is in operation.
2	Heilongjiang	Water supply plant TOT project in Jiamusi	Water supply	360,000	57.9623%	The project is in operation.
3	Hubei	Water supply project in Tianmen	Water supply	200,000	100%	The project is in operation.
4	Hubei	Water supply project in Xinnong, Tianmen	Water supply	N/A	70%	The project is in operation.
5	Hubei	Water supply project in Huangpi, Wuhan	Water supply	220,000	100%	• The project is in operation. • 60,000 tonnes of phase 5 of the Qianchuan water plant are under construction.
6	Hunan	Water supply project in Yiyang	Water supply	520,000	90%	• 320,000 tonnes of the project are in operation. • 200,000 tonnes of the project are under construction.
7	Shandong	Water supply project in Hanting, Weifang	Water supply	60,000	26.183%	The project is in operation.
8	Shandong	Water supply project in Weifang	Water supply	320,000	51.34%	The project is in operation.
9	Shanxi	Water supply project in Lvliang	Water supply	55,000	100%	The project is in operation.
Total				**2,035,000**		
Total for water projects				**10,763,000**		

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	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Waste incineration projects						
1	Shanghai	Waste incineration thermal power generation project in Pucheng	Waste incineration	1,050	50%	The project is in operation.
2	Shandong	Waste incineration power generation franchise BOT project in Wulian	Waste incineration	600	82.94%	The project is under construction.
3	Siuchuen	Waste incineration thermal power generation project in Dazhou	Waste incineration	1,050	100%	• 700 tonnes/day of phase I of the project are in operation. • 350 tonnes/day of phase II of the project are yet to commence construction.
4	Zhejiang	Waste incineration thermal power generation project in Wenling	Waste incineration	1,100	50%	The project is in operation.
Total				**3,800**		

	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sludge treatment projects						
1	Heilongjiang	Phase I and phase II of the sludge treatment project in Haerbin	Sludge treatment	1,000	57.9687%	• Phase I of the project is in operation. • Phase II of the project is under construction.
2	Heilongjiang	Sludge treatment project in Hehe	Sludge treatment	40	57.5819%	The project is yet to commence operation.
3	Heilongjiang	Sludge treatment project in Jiamusi	Sludge treatment	100	56.3572%	The project is under construction.
4	Heilongjiang	Sludge treatment project in Mudanjiang	Sludge treatment	150	57.9687%	The project is under construction.
5	Heilongjiang	Sludge treatment project in Ningan	Sludge treatment	40	57.5389%	The project is in operation.
6	Henan	Sludge treatment project in Xinxiang	Sludge treatment	300	69.113%	The project is in operation.
7	Henan	Sludge treatment project in Nanyang	Sludge treatment	300	69.113%	The project is in operation.
8	Hubei	Sludge treatment project in Hanxi	Sludge treatment	325	80%	The project is in trial operation.
Total				**2,255**		

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	Province	Projects of General Water of China	Project type	Daily production capacity (tonnes)	Interest attributable to General Water of China	Project progress
Sewage treatment projects						
1	Auhui	Sewage treatment plant project nos. 2, 3 and 4 in Bengbu	Sewage treatment	350,000	100%	The project is in operation.
2	Auhui	Sewage treatment project in Suzhou	Sewage treatment	100,000	80%	The project is under construction.
3	Fujian	Sewage treatment project in Xiamen	Sewage treatment	1,202,500	55%	The project is in operation.
4	Guangdong	Sewage treatment plant project in Longhua, Shenzhen	Sewage treatment	150,000	90%	The project is in operation.
5	Heilongjiang	City sewage treatment project in Suifenhe	Sewage treatment	20,000	100%	The project is in operation.
6	Hunan	Sewage treatment project in river east of Xiangtan	Sewage treatment	150,000	100%	The project is in operation.
7	Zhejiang	Sewage treatment project in the new zone of eastern Huzhou	Sewage treatment	50,000	100%	The project is in operation.
8	Zhejiang	Sewage treatment project in Huzhou	Sewage treatment	15,000	100%	The project is in operation.
9	Zhejiang	Sewage treatment plant upgrading works entrustment project in the new zone of eastern Huzhou	Sewage treatment	50,000	N/A	The project is in operation.
10	Zhejiang	Sewage treatment project in eastern Wenzhou	Sewage treatment	150,000	100%	The project is in operation.
11	Zhejiang	Sewage treatment project in central Wenzhou	Sewage treatment	200,000	70%	The project is in operation.
Total				**2,437,500**		
Water supply/water generating projects						
1	Auhui	Water supply project in Bengbu	Water supply	705,000	60%	The project is in operation.
2	Auhui	Water supply project in Guzhen	Water supply	100,000	60%	The project is in operation.
3	Fujian	Water generation project in Xiamen	Water generation	1,565,000	45%	The project is in operation.
4	Heilongjiang	Wuhua mountain reservoir project and water supply project in Suifenhe	Water supply	305,000	100%	The project is in operation.
5	Hubei	Water supply project in Xiangyang	Water supply	953,000	50%	The project is in operation.
6	Hunan	Water supply project in Xiangtan	Water supply	425,000	70%	The project is in operation.
7	Zhejiang	Project on reservoir and water induction works in Tiger Lake, Huzhou	Water supply	200,000	100%	The project is in operation.
8	Zhejiang	GWC sewage treatment (water supply plant) project in Huzhou	Water supply	12,000	100%	The project is in operation.
Total				**4,265,000**		
Total for water projects				**6,702,500**		

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

NEW BUSINESS ARENA

As at the end of 2017, Shanghai Galaxy and its 85% owned subsidiary, Galaxy Energy, operated 11 photovoltaic power generation projects in the PRC, with total photovoltaic assets capacity reaching 560MW. During the year, the total amount of on-grid electricity sold was approximately 716 million kWh, representing an increase of 28.7% over the previous year. With the rapid growth of the photovoltaic business, the project companies continued to pursue more potential quality assets, and efforts were also made to strengthen the management of existing projects. As national policies have provided firm support to the environmental protection industry, it is expected that the development of the photovoltaic power generation business will be further driven. In future, efficient and safe management of resources will be strengthened to ensure that power generation will be increased under a healthy external environment with enhanced resources utilization to support the company's long-term sustainable development.

REAL ESTATE

The real estate segment recorded a profit of HK$894 million for the year and accounting for 25.6% of the Group's Net Business Profit. SI Urban Development had recorded additional gains arising from the disposal of a 75% interest in the "U Center" project in Shanghai in 2016. While no such additional gains similar to that of 2016 were recorded during the year, higher gross profit margin and revenues booked from property sales increased significantly, leading to an increase in profit of by 18.9% year-on-year.

In November 2017, the Group restructured its assets to optimize its resource allocation, pursuant to which, Shanghai Urban Development, a non-wholly owned subsidiary of SI Urban Development, transferred its entire equity interest in Shenda Property and SUD Commercial to the wholly-owned subsidiaries of SI Development for RMB70 million and RMB17 million respectively. Both companies are engaged in property management in the PRC. Such transactions will enable SI Urban Development to focus on property developments in Shanghai as well as first-tier and second-tier core cities in the country, thereby divesting its non-core property management projects. At the same time, it will allow SI Development to expand rapidly its property management business, thus consolidating its industry position and increasing its market shares.




BUSINESS REVIEW, DISCUSSION AND ANALYSIS

SI Development

SI Development recorded a revenue of RMB7,234 million for the year, representing an increase of 11.46% over last year, arising mainly from property sales booked for real estate projects. Net profit for the year amounted to RMB872 million, representing an increase of 47.2% over last year. Contract sales for the year amounted to RMB5,304 million, arising from such projects as A New Era in the City in Jiading, Shanghai, Sea Palace in Quanzhou and Hi-Shanghai in Hangzhou with a gross floor area of 263,800 square meters. Property sales booked for the year were RMB5,247 million, which mainly included Shanghai Bay in Qingpu, Shanghai, Sea Palace in Quanzhou and Hi-Shanghai in Chongqing. Rental income for the year amounted to HK$358 million.

In December 2017, through its wholly–owned subsidiaries, SI Development acquired the property interest in the E1B project at a consideration of RMB187 million and 80% equity interest in SSCAM at a consideration of RMB13.72 million respectively, from wholly-owned subsidiaries of SIIC. The E1B project includes the land use right of a project site located at the Pao Jiang Industrial Zone, Shaoxing, Zhejiang and the immovable properties erected thereon. With a site area of 13,110 square meters and a total gross floor area of 33,211.44 square meters, the project is for both office and commercial use, with the land use right for such purposes expiring on 4 December 2044. The project development was completed in August 2017. Following this, SI Development will be able to further strengthen the rental income of its real estate business, and at the same time, enjoy potential capital appreciation in the future. SSCAM is a commercial property management company that has intelligent operation management systems, and was entrusted to operate and manage the Changning United 88 Center project and the Pudong Shengyin Building project. The acquisitions will improve the property management quality of SI Development and enhance its profitability.

In June, a wholly-owned subsidiary of SI Development won the bid for the purchase of land use rights for the land lot “Sudi 2017-WG-10” in Suzhou, Jiangsu at a consideration of RMB2,196.60 million. The land parcel is located in Mudu Town, Wuzhong District, Suzhou with a site area of 40,816.9 square meters and a plot ratio of 2.2, for residential use.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In the same month, Cowork Internet was invited by SI Development to inject 100% equity interest of its wholly-owned subsidiary, Cowork Technology into Weplus Technology, a 45% associated company of SI Development, for an increase of registered capital amounting to RMB41,058,919. Upon completion of the transaction, Weplus Technology is able to strategically penetrate the Southern China market and have presence in 19 major cities, occupying 51 locations across the country with a leading position in the industry in terms of the number of cities and locations. The transaction marks a step forward for SI Development in the exploration of the shared office business and represents an effective pilot programme for the company. The transaction will lay a solid foundation for Weplus Technology in developing the platform mode for resource matching, service upgrading and space sharing in the shared office business.

In July, SI Development introduced Mori Building Shanghai to contribute an additional capital of approximately RMB128.08 million to Shanghai Hongsheng, a 49% associated company of SI Development, representing a 10% equity interest of Shanghai Hongsheng. In addition to optimizing the funding structure, the transaction is expected to benefit Shanghai Hongsheng from the extensive experience of its new shareholder in the area of urban redevelopment and town management. Such resources are expected to help the company to step up the development and construction progress of the Honghou North Bund project and to efficiently enhance the quality of project construction and operation.

In November 2017, the official launch ceremony of "SI Services+" was held. "SI Services+" is a comprehensive smart lifestyle service platform that integrates the quality service resources of SI Development as a whole, covering a variety of services such as property services, smart energy, shared office, social services and health-care for the elderlies. It will offer quality experience and value-added services to its customers and strengthen the momentum and capability of the company for innovative development.

SI Urban Development

Profits attributable to shareholders of SI Urban Development for the year amounted to HK$558 million, representing a rise of 6.9%. The increase is mainly attributable to more properties delivered during the year upon completion of construction under Urban Cradle and Grand Mansion in Shanghai and Originally in Xi'an. Revenue amounted to HK$9,357 million, representing an increase of 70.4% as compared to last year. Properties delivered during the year mainly included Urban Cradle and Grand Mansion in Shanghai and Originally in Xi'an, accounting for a gross floor area of 358,000 square meters. Overall contract sales of SI Urban Development dropped 10.0% to RMB5,940 million, which mainly included Urban Cradle and Grand Mansion in Shanghai and Originally in Xi'an, representing a gross floor area of 386,000 square meters, an increase of 8.4% over last year. Rental income for the year amounted to HK$635 million.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

TODTOWN was jointly developed by Shanghai Urban Development, SHK Properties and the Shanghai government. The phase I residential portion of TODTOWN is planned to be launched in the market in 2018; the commercial portion has already commenced construction. The development is expected to generate more stable rental income for the company in the future.

In August, SI Urban Development won the bid for the land use rights of a land plot for a land premium of RMB2,220 million. The land is located at Minhang District, Shanghai, next to a large park and is a metro superstructure project along Metro Line No. 12, with a total site area of approximately 34,000 square meters and a total gross floor area of approximately 118,000 square meters, for commercial use. The site is expected to be developed into a low-density commercial complex.

Subsequent to the year end, through its subsidiaries, SI Urban Development entered into respective agreements with the wholly-owned subsidiaries of SIIC, on 30 January and 28 February 2018, to acquire a 100% equity interest in Shanghai Shangtou for RMB530,827,057.19 and a 35% equity interest in NR Investment for RMB88,338,100. Shanghai Shangtou principally holds two secondary land development projects in China, and NR Investment is principally engaged in primary land development in China. The acquisition provides a good opportunity for SI Urban Development to expand its investment to the primary and secondary land development business in Shanghai, which complements its principal businesses. The acquisitions are also in line with the Group's strategic integration framework for its real estate segment.

Set out below is a summary of the major property development projects of the Group as at 31 December 2017:

Major Development Properties

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
1	Kaifu District, Changsha	Fengsheng Building	Residential and commercial	90%	5,468	70,144	–	12,538	Completed
2	Chenghua District, Chengdu	Hi-Shanghai	Residential and commercial	100%	61,506	254,885	14,355	176,157	Completed
3	Beibei District, Chongqing	Hi-Shanghai	Residential and commercial	100%	30,843	71,459	27,707	44,682	2019
4	Yuhang District, Hangzhou	Hi-Shanghai (Phase I)	Residential and commercial	85%	74,864	230,484	55,910	–	2018
5	Yuhang District, Hangzhou	Hi-Shanghai (Phase II)	Residential and commercial	100%	59,640	198,203	23,001	–	2019
6	Wuxing District, Huzhou	Shanghai Bay	Residential	100%	85,555	96,085	2,559	86,122	Completed
7	Wuxing District, Huzhou	SIIC Garden Hotel	Hotel and commercial	100%	116,458	47,177	–	–	Completed
8	Wuxing District, Huzhou	Hurun Commercial Plaza	Commercial	100%	13,661	27,322	–	–	Under planning
9	Wuxing District, Huzhou	SIIC Tianlan Bay	Residential and commercial	100%	115,647	180,211	–	–	2019
10	Wuxing District, Huzhou	SIIC Yungjing Bay	Residential	100%	68,471	203,087	–	–	2020
11	Shilaoren National Tourist Resort, Qingdao	International Beer City	Composite	100%	227,675	787,000	14,547	295,661	2014 to 2018, in phases
12	Fengze District, Quanzhou	Sea Palace	Residential and commercial	51%	170,133	1,064,099	56,221	–	2017 to 2021, in phases

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
13	Changning District, Shanghai	United 88	Residential	100%	30,175	124,891	–	114,556 (carpark included)	Completed
			Commercial	100%	16,520	123,308	–	–	Completed
14	Jiading District, Shanghai	A New Era in the City	Residential and commercial	100%	58,949	163,351	26,546	–	2019
15	Jiading District, Shanghai	Essence of Shanghai	Residential and commercial	100%	32,991	75,559	–	31,468	Completed
16	Jingan District, Shanghai	Territory Shanghai	Residential	100%	32,512	114,737	–	76,768	2017
17	Jinshan District, Shanghai	Flos Granti	Residential	100%	135,144	214,143	9,223	186,739	Completed
18	Qingpu District, Shanghai	Belle Rive	Villa	51%	334,905	46,346	11,367	18,152	Completed
19	Qingpu District, Shanghai	Shanghai Bay	Residential	51%	808,572	497,065	3,490	96,156	2011 to 2021, in phases
20	Qingpu District, Shanghai	He Villa/Sea County	Residential	51%	162,708	121,683	10,300	83,496 (carpark included)	Completed
21	Qingpu District, Shanghai	Shanghai International Art Centre	Composite	100%	194,956	120,363	1,543	86,105	Completed
22	Hongkou District, Shanghai	North Bund Project	Commercial and office	44.1%	23,037	226,485	–	–	2021
23	Paojiang New Zone, Shaoxing	International Chinese City	Residential and commercial	96.42%	156,452	265,554	580	181,218	Completed
24	Wuzhong District, Suzhou	Lake Villa	Residential	70%	285,185	283,377	6,515	267,824	Completed
Sub-total					**3,302,027**	**5,607,018**			

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	Projects of SI Urban Development	Type of property	Interest attributable to SI Urban Development	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
1	Chaoyang District, Beijing	American Rock	Residential and commercial	100%	121,499	523,833	–	454,563	Completed
2	Chaoyang District, Beijing	Youngman Point	Residential and commercial	100%	112,700	348,664	471	258,814	2007 to 2021, in phases
3	Haidian District, Beijing	West Diaoyutai	Residential	90%	42,541	250,930	–	172,069	2007 to 2021, in phases
4	Wancheng District, Changsha	Forest Sea	Residential and commercial	67%	679,620	1,032,534	31,954	302,217	2007 to 2025, in phases
5	Jiulongpo District, Chongqing	Top City	Residential, commercial and office	100%	120,014	786,233	–	376,095	Completed
6	Langqi Island, Fuzhou	Sweet Sea	Residential and commercial	26%	387,693	1,046,898	230,116	350,525	2018 to 2021, in phases
7	Huaqiao Town, Kunshan	Yoooou.net	Commercial and office	30.7%	34,223	129,498	1,024	62,975	Completed
8	Zhoushi Town, Kushan	Royal Vila	Residential	53.1%	205,017	267,701	4,703	209,045	Completed
9	Minhang District, Shanghai	Urban Cradle	Residential and commercial	53.1%	943,000	1,226,298	30,729	769,040	2007 to 2021, in phases
10	Minhang District, Shanghai	Shanghai Jing City	Residential and commercial	59%	301,908	772,885	15,104	560,074	2012 to 2018, in phases
11	Minhang District, Shanghai	TODTOWN	Residential, commercial, hotel, office and apartment office	20.7%	117,825	605,000	–	–	2018 to 2022, in phases
12	Minhang District, Shanghai	Contemporary Art Villas	Residential	100%	116,308	71,822	–	31,705	2018 to 2022, in phases
13	Minhang District, Shanghai	Contemporary Splendour Villas	Residential	100%	120,512	191,636	–	–	2018 to 2022, in phases
14	Songjiang District, Shanghai	Shanghai Youth City	Commercial and office	100%	57,944	212,130	–	139,840	Completed
15	Xuhui Binjiang, Shanghai	Binjiang U Center	Office and commercial	35.4%	77,371	525,888	–	–	2019 to 2021, in phases
16	Heping District, Shenyang	Shenyang • U Centre	Commercial, office and serviced apartment	80%	22,651	228,768	14,248	19,746	2015 to 2018, in phases
17	Futian District, Shenzhen	China Phoenix Tower	Residential, commercial and office	91%	11,038	106,190	–	78,343	Completed
18	Nankai District, Tianjian	Laochengxiang	Residential, commercial and office	100%	244,252	752,883	6,359	578,266	2006 to 2019, in phases
19	Binghu District, Wuxi	Urban Development International Center	Commercial, hotel, office and serviced apartment	59%	24,041	193,368	1,538	42,303	Completed
20	Chanba Ecotope, Xi'an	Originally	Residential, commercial and hotel	71.5%	2,101,967	3,899,867	231,565	2,233,908	2008 to 2019, in phases
Sub-total					**5,842,124**	**13,173,026**			

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	Projects of the Company	Type of property	Interest attributable to the Company	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
1	Qingpu District, Shanghai	Belle Rive	Villa	49%	334,905	46,346	11,367	18,152	2014 to 2017, in phases
2	Qingpu District, Shanghai	Shanghai Bay	Residential	49%	808,572	497,065	3,490	96,156	2011 to 2017, in phases
3	Qingpu District, Shanghai	He Villa/Sea County	Residential	49%	162,708	121,683	10,300	83,496 (carpark included)	Completed
Sub-total					**1,306,185**[1]	**665,094**[1]			
Total					**10,450,336**[1]	**19,445,138**[1]			

Major Future Development Projects

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Expected date of completion
1	Qingpu District, Shanghai	Zhujiajiao Lot D2	Residential and commercial	51%	349,168	289,568	2020
2	Wuzhong District, Suzhou	Sudi Lot 2017-WG-10	Residential	100%	40,817	126,881	2020
Sub-total					**389,985**	**416,449**	

	City	Projects of the Company	Type of property	Interest attributable to the Company	Approximate site area (square meters)	Planned total GFA (square meters)	Expected date of completion
1	Qingpu District, Shanghai	Zhujiajiao Lot D2	Residential and commercial	49%	349,168	289,568	2020
2	Qingpu District, Shanghai	Shanghai Lot F	Villa	10%	350,533	175,267	Under planning
3	Qingpu District, Shanghai	Shanghai Lot G	Villa	10%	401,274	200,637	Under planning
Sub-total					**1,100,975**[1]	**665,472**[1]	
Total					**1,490,960**[1]	**1,081,921**[1]	

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Major Investment projects

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Total GFA for investment properties (square meters)
1	Wenjiang District, Chengdu	Orchard Forest Commercial Building	Commercial	100%	1,396
2	Qingdao Economic Development Zone	Dali Plaza	Commercial	76%	21,495
3	Laoshan District, Qingdao	Shanghai Industrial Investment Centre	Office	100%	27,812
4	Changning District, Shanghai	Super Ocean Finance Center	Office	100%	2,321
5	Changning District, Shanghai	United 88	Commercial	100%	48,291
			Office	100%	39,000
6	Hongkou District, Shanghai	Gao Yang Commercial Centre	Office	100%	26,668
7	Hongkou District, Shanghai	Gao Yang Hotel	Office	100%	3,847
8	Huangpu District, Shanghai	Golden Bell Plaza	Office	100%	12,270
			Office	90%	49,006 (car park included)
9	Huangpu District, Shanghai	Huangpu Estate	Commercial	100%	20,918 (car park included)
10	Huangpu District, Shanghai	No. 108 Haichao Road	Commercial	100%	474
11	Jingan District, Shanghai	Territory Shanghai	Commercial	100%	1,779 (car park included)
12	Pudong New District, Shanghai	No. 1111 Shangchuan Road	Industrial	100%	40,208
13	Pudong New District, Shanghai	Huashen Building	Office	100%	344
14	Xuhui District, Shanghai	Shanghai Industrial Investment Building	Office	100%	10,089
				74%	23,035 (car park included)
15	Xuhui District, Shanghai	Yonglong Building	Office	100%	798
16	Yangpu District, Shanghai	Hi-Shanghai	Commercial	100%	44,027 (car park included)
17	Zhabei District, Shanghai	No. 235 Zhongshan Road North (portion)	Office	100%	1,434
18	Xiqing District, Tianjin	Rhine Town	Commercial	100%	5,961
Sub-total					**381,173**

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

	City	Projects of SI Urban Development	Type of property	Interest attributable to SI Urban Development	Total GFA for investment properties (square meters)
1	Chaoyang District, Beijing	Youngman Point	Commercial	100%	19,768[2]
2	Jiulongpo District, Chongqing	Top City	Commercial and parking lot	100%	251,847[2]
3	Changning District, Shanghai	ShanghaiMart	Exhibition, transaction market, office building and parking lot	51%	284,651
4	Minhang District, Shanghai	Contemporary Art Villas	Villa	100%	43,976[2]
5	Songjiang District, Shanghai	Shanghai Youth City	Commercial	100%	16,349[2]
6	Xuhui District, Shanghai	Urban Development International Tower	Office building	59%	45,239
7	Xuhui District, Shanghai	YOYO Tower	Commercial	59%	13,839
8	Futian District, Shenzhen	China Phoenix Tower	Office building	91%	1,048[2]
9	Shanghai and Tianjin	Other	Commercial, office building and parking lot	59%	9,249
Sub-total					**685,966**
Total					**1,067,139**

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

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

CONSUMER PRODUCTS

The consumer products business contributed a profit of HK$1,070 million during 2017, which was basically the same with that of last year and accounting for 30.6% of the Group's Net Business Profit. Through its efforts in recent years, Wing Fat Printing has diversified its development. Apart from traditional tobacco and wine packaging business, the company also successfully expanded into the new exquisite high-end moulded fiber packaging business which has become an important source of contribution for its business. During the year, due to the decline in consumption in the tobacco market and against the macro-environment of smoking control, profits for the tobacco industry were more or less affected. In view of the current market situation and strengths of the company, Nanyang Tobacco will establish new goals and introduce respective measures in order to achieve sustainable development in the coming year.

Tobacco

During the year, Nanyang Tobacco continued to work hard to overcome from the changing external environment. Through expanding the market and upgrading its technologies, the company has improved itself as well as operational efficiency. During the year, the operational targets established for the whole year were achieved recording a profit after tax of HK$950 million and a revenue of HK$3,092 million. This represented a moderate decrease from last year due to objective factors from the external environment. In the coming year, Nanyang Tobacco will continue to capitalize on opportunities for development, maintain the sales volume of its traditional products, and actively promote new products development. In addition, advanced production technology and equipment will be introduced in order to make innovative breakthroughs into new tobacco projects and to increase the company's profitability.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

During the year, Nanyang Tobacco strived to develop new markets and products to cope with market challenges. The company has made considerable efforts to develop its business in countries and markets along the "One Belt and One Road". Extensive researches were conducted and differnent ways were explored to bring vitality to the century-old national brand "Double Happiness" into the surrounding markets. Satisfactory results are expected for the expansion of the product into countries of Central Asia. Currently, the company is striving to target at the duty-free markets in Armenia and Azerbaijan and will subsequently expand its sales efforts into other countries. The Double Happiness "One Belt and One Road" commemorative edition for Central Asia also successfully opened its market in Vietnam.

In addition, Nanyang Tobacco continued to carry out new product development programs to upgrade its products, including the successful launch of such new products that brought market attention to the "Double Happiness" brand. New products to be launched to the market include Double Happiness Nanyang Classic, Double Happiness Ta Shee, Double Happiness Classic Deluxe (round box) and Pearl of the Orient (Hong Kong Milk Tea Flavor).

Printing

Wing Fat Printing recorded a revenue of HK$1,416 million for 2017, representing a rise of 16.3% over last year. This was mainly attributable to the increase in revenue brought by the new exquisite high-end moulded fiber packaging business and the wine-packaging business during the year. Net profits for the year amounted to HK$128 million, which were basically the same as last year.

The year 2017 was a critical year for the business transformation of Wing Fat Printing and a crucial time for the company to transform, change and innovate. During the year, the company was under the pressure of continuous decline in product pricing, surging raw material prices, rising labor costs as well as other internal and external competitions and challenges. By virtue of the determination and commitment of the management team, the company was able to achieve its annual operational objectives of "making new breakthroughs for new business, seeking steady increase for traditional business" which were introduced in the beginning of the year. It is encouraging to note that with the above efforts, both traditional business and new ventures made progress.

Through the efforts of the management team, in just three years, the new exquisite high-end moulded fiber packaging business serving multi-national customers, has become a new driver for strategic transformation of the century-old Wing Fat Printing and new power engine for its growth and development. The declined trend encountered in the past years for the traditional printing and packaging business has also come to an end. In face of the impact resulted from significant rises in raw materials such as papers and cartons since 2016, the company actively took effective measures to increase revenue and explore business potential, which was able to offset the impact of substantial increases in raw material prices for the current operating results, and safeguarded the strategy of "a transforming development propelled by two wheels" of Wing Fat Printing.

FINANCIAL REVIEW

KEY FIGURES

	2017	2016	Change %
Results			
Revenue (HK$'000)	29,504,287	22,131,758	33.3
Profit attributable to owners of the Company (HK$'000)	3,150,472	2,903,030	8.5
Earnings per share – basic (HK$)	2.898	2.673	8.4
Dividend per share (HK cents)	94	92	
– Interim (paid)	46	36	
– Special (paid)	–	10	
– Final (proposed)	48	46	
Dividend payout ratio	32.4%	34.4%	
Interest cover (note (a))	7.1 times	7.2 times	

	2017	2016	Change %
Financial Position			
Total assets (HK$'000)	171,329,815	151,248,175	13.3
Equity attributable to owners of the Company (HK$'000)	41,579,852	36,916,289	12.6
Net assets per share (HK$)	38.24	33.98	12.5
Net debt ratio (note (b))	47.82%	38.42%	
Gearing ratio (note (c))	42.67%	42.53%	
Number of shares in issue (shares)	1,087,211,600	1,086,565,600	

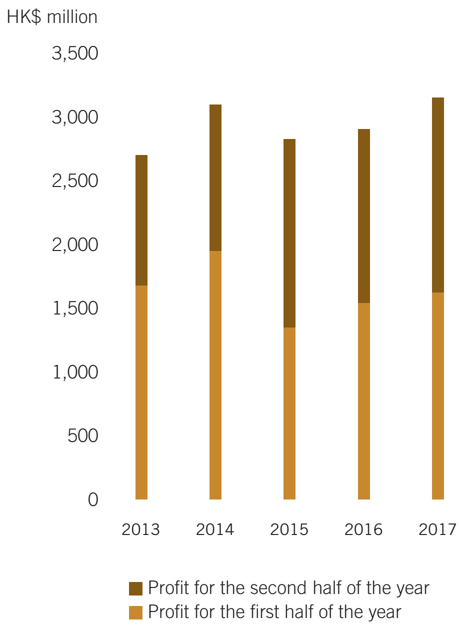
Note (a): (profit before taxation, interest expenses, depreciation and amortization)/interest expenses
Note (b): (interest-bearing loans – cash)/equity attributable to owners of the Company
Note (c): interest-bearing loans/(equity attributable to owners of the Company + non-controlling interests + interest-bearing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

FINANCIAL REVIEW

I ANALYSIS OF FINANCIAL RESULTS

1 Profit attributable to owners of the Company

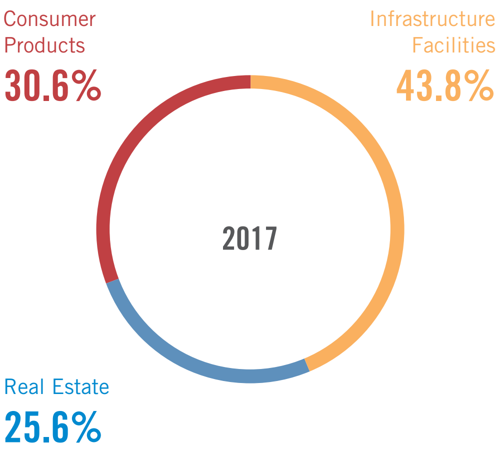
For year ended 31 December 2017, the Group recorded a profit attributable to owners of the Company of HK$3,150.47 million, an increase of HK$247.44 million or approximately 8.5% as compared to 2016.

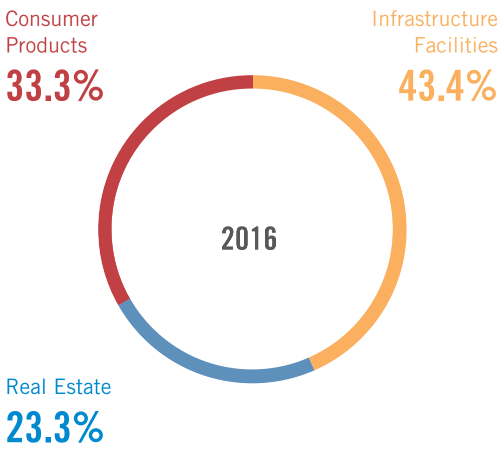


2 Profit Contribution from Each Business

The profit contributed by each business in the Group for the year of 2017 and the comparative figures last year was summarized as follows:

	2017 HK$'000	2016 HK$'000	Change %
Infrastructure Facilities	1,533,351	1,397,276	9.7
Real Estate	893,806	751,579	18.9
Consumer Products	1,070,261	1,074,788	-0.4
	3,497,418	3,223,643	8.5





FINANCIAL REVIEW

Net profit from the infrastructure facilities business for the year was approximately HK$1,533.35 million, accounting for 43.8% of Net Business Profit, and representing a year-on-year increase of 9.7%. For toll road business, the year-on-year reduction of traffic flow of the Hu-Yu Expressway (Shanghai Section) due to the resumption of toll collection in the Xujing to Jiasong section and the close of the temporary ramps at Huting North Road in July. The traffic flow of the other two expressways recorded a growth of 6.3% and 6.9% due to improvement and modification works of the toll plaza. The business also benefited from the fair value gain of Wufangzhai which has become an associate after further acquisition of shares in it by Hu-Ning Expressway. As a result, toll road business achieved a year-on-year increase of 19.0%. Water services business also recorded steady growth, which was mainly attributable to the increase in profit attributable to shareholders of SIIC Environment by 17.7%, driven by profit contributions from newly acquired entities. The results of General Water of China remained stable. Canvest Environmental contributed a profit of HK$41.65 million during the year.

The real estate business recorded a net profit of approximately HK$893.81 million, accounting for 25.6% of Net Business Profit, and representing a year-on-year increase of 18.9%. The increase was mainly due to increases in property sales booked during the year over last year, resulting in a significant increase in operating profits. A profit after taxation of approximately HK$741.44 million was recorded last year arising from the completion of disposal of 75% interests in the “U Center” project in Shanghai by SI Urban Development.

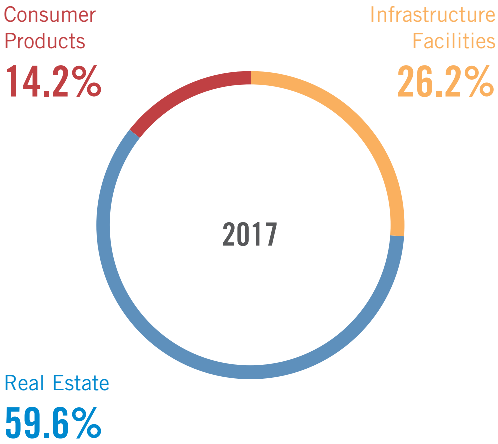
The consumer products business recorded a net profit of HK$1,070.26 million for the year, accounting for 30.6% of Net Business Profit, and representing a year-on-year decrease of 0.4%. The net profit of Nanyang Tobacco decreased HK$20.93 million or 2.2% year-on-year, mainly due to the impact of macro-environment of smoking control which affected the tobacco industry, causing its sales to decline by 3.5% year-on-year. Wing Fat Printing contributed a net profit of HK$120.03 million for the year, representing a year-on-year increase of 15.8%. During the year, Wing Fat Printing actively took effective measures to curb the impact of the rising raw material prices and the disposal of 25% equity interest in Xuchang Yongchang Printing Co., Ltd. contributed a net profit of HK$19.25 million.

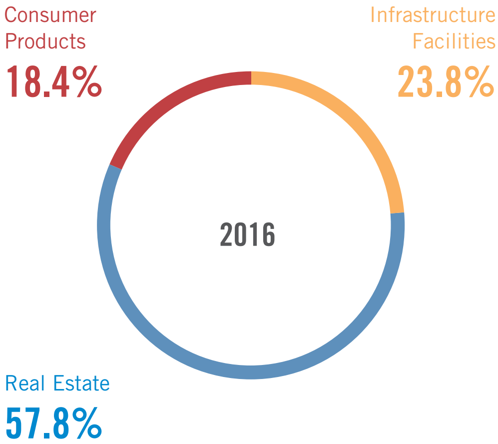
FINANCIAL REVIEW

3 Revenue

The Group's revenue by principal activities for the year of 2017 and the comparatives of last year was summarized as follows:

	2017 HK$'000	2016 HK$'000	Change %
Infrastructure Facilities	7,725,036	5,274,746	46.5
Real Estate	17,592,881	12,777,693	37.7
Consumer Products	4,186,370	4,079,319	2.6
	29,504,287	22,131,758	33.3





In 2017, the revenue amounted to approximately HK$29,504.29 million, representing a year-on-year increase of 33.3%, mainly due to completion and delivery of more property as compared to last year.

The year-on-year increase in revenue of the infrastructure facilities business was attributable to the increase in revenue from SIIC Environment of approximately HK$2,273.36 million as revenue from Longjiang Environmental was being consolidated upon the completion of the acquisition of additional interest in October 2016. In addition, its construction income also recorded a year-on-year increase.

The increase in revenue of HK$4,815.19 million of the real estate business was attributable to increases in property sales booked over last year.

The revenue of Nanyang Tobacco remained stable while the moulded fibre packaging business of Wing Fat Printing recorded growth. As a result, the revenue from the consumer products business increased by approximately 2.6% year-on-year.

FINANCIAL REVIEW

4 Profit before Taxation

(1) Gross profit margin

Compared to 2016, overall gross profit margin increased by 5.4 percentage points, mainly due to an increase in proportion of property sales booked with higher profit margins in the real estate business for the year, while the proportion of construction income of SIIC Environment with relatively lower profit margin in the infrastructure facilities business increased, which in turn resulted in a decrease of 1.4 percentage points in the gross profit margin of the infrastructure facilities business. Meanwhile, the gross profit margin for the consumer products business remained stable.

(2) Other income, gains and losses

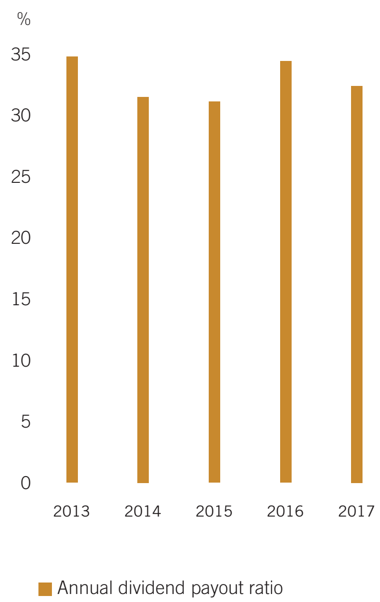
As Renminbi depreciated last year but turnaround and appreciated during the year, net foreign exchange gain was recorded for the year while net foreign exchange loss was booked for last year.

(3) Gain on derecognition/disposal of interests in associates/disposal of assets through disposal of interests in subsidiaries

The gain for the year was mainly attributable to a profit before tax of HK$206.56 million and HK$22.71 million from the fair value gain on the revaluation of previously held interest in Quanzhou project and completion of the disposal of 25% equity interest in an associate of Wing Fat Printing respectively. The gain for last year was HK$2,725.93 million which was mainly attributable to profit before tax from a fair value gain on revaluation of previously held interest in Longjiang Environmental and the completion of disposal of 75% interests in the "U Center" project in Shanghai.

5 Dividend

The Board of Directors of the Group has proposed to declare a final dividend of HK48 cents per share. Together with an interim dividend of HK46 cents per share, the total dividend amounted to HK94 cents per share for 2017 (2016: HK92 cents per share). Annual dividend payout ratio is 32.4% (2016: 34.4%).



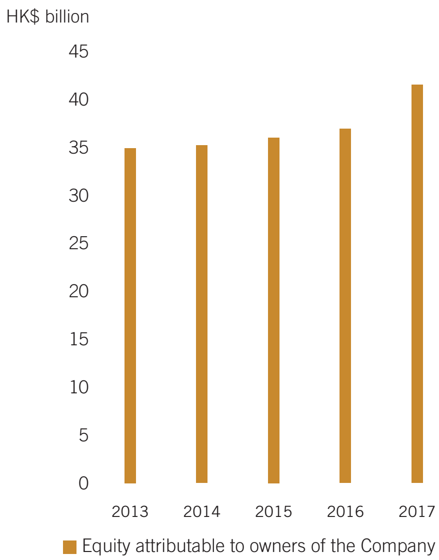
FINANCIAL REVIEW

II FINANCIAL POSITION OF THE GROUP

1 Capital and Equity attributable to owners of the Company

The Company had a total of 1,087,211,600 shares in issue as at 31 December 2017, which was increased by 646,000 shares as compared with 1,086,565,600 shares in issue as at the end of 2016.

Equity attributable to owners of the Company reached HK$41,579.85 million as at 31 December 2017, and the increase was attributable to the net profit for the year after deducting the dividend actually paid during the year.



2 Indebtedness

(1) Borrowings

SIHL Finance Limited, a wholly-owned subsidiary of the Company, signed a HK$2.4 billion or US dollar equivalent dual-currency club loan for a term of 5 years in March 2017.

As at 31 December 2017, the total borrowings of the Group including bank borrowings, other borrowings and convertible bonds amounted to approximately HK$52,810.14 million (31 December 2016: HK$46,235.88 million), of which 64.5% (31 December 2016: 67.9%) was unsecured credit facilities. The proportions of US dollars, Renminbi and HK dollars of total borrowings were 3%, 84% and 13% (31 December 2016: 3%, 84% and 13%) respectively.

(2) Pledge of assets

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

(a) investment properties with an aggregate carrying value of HK$12,056,862,000 (31 December 2016: HK$11,585,060,000);

(b) leasehold land and buildings with an aggregate carrying value of HK$150,233,000 (31 December 2016: HK$906,567,000);

(c) plant and machineries with an aggregate carrying value of HK$34,601,000 (31 December 2016: HK$20,218,000);

(d) one (31 December 2016: one) toll road operating right with a carrying value of HK$2,410,356,000 (31 December 2016: HK$2,415,929,000);

(e) receivables under service concession arrangements with an aggregate carrying value of HK$10,131,288,000 (31 December 2016: HK$9,179,515,000);

(f) properties under development held for sale with an aggregate carrying value of HK$1,930,280,000 (31 December 2016: HK$5,644,075,000);

(g) properties held for sale with an aggregate carrying value of HK$338,443,000 (31 December 2016: HK$16,233,000);

(h) trade receivables with an aggregate carrying value of HK$10,694,000 (31 December 2016: HK$63,968,000); and

(i) bank deposits with an aggregate carrying value of HK$751,162,000 (31 December 2016: HK$430,853,000).

(3) Contingent liabilities

As at 31 December 2017, the guarantees given to banks by the Group in respect of banking facilities utilised by property buyers and joint ventures amounted to approximately HK$4,652.21 million and HK$2,164.27 million (31 December 2016: HK$4,926.28 million and HK$1,779.63 million) respectively. As at 31 December 2016, the guarantees given to banks by the Group in respect of banking facilities utilised by an entity controlled by the State-owned Assets Supervision and Administration Commission of Shanghai Xuhui District amounted to approximately HK$163.02 million.

3 Capital Commitments

As at 31 December 2017, the Group had capital commitments mainly contracted for business developments and investments in fixed assets of HK$5,800.32 million (31 December 2016: HK$5,831.65 million). The Group had sufficient internal resources and/or through loan markets for the finance of its capital expenditures.

4 Bank Balances and Short-term Investments

As at 31 December 2017, bank balances and short-term investments held by the Group amounted to HK$32,926.50 million (31 December 2016: HK$32,053.02 million) and HK$483.05 million (31 December 2016: HK$226.97 million) respectively. The proportions of US dollars and other currencies, Renminbi and HK dollars of bank balances were 3%, 86% and 11% (31 December 2016: 3%, 88% and 9%) respectively. Short-term investments mainly consisted of investments such as bonds, Hong Kong and PRC listed shares.

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

III MANAGEMENT POLICIES FOR FINANCIAL RISK

1 Currency Risk

The Group mainly operates in China and the Hong Kong Special Administrative Region and the exposure in exchange rate risks mainly arise from fluctuations in the US dollar, Singapore dollar, HK dollar and Renminbi exchange rates. The management monitors foreign currency exposure and will also consider hedging significant foreign currency exposures and adopting suitable measures where necessary.

2 Interest Rate Risk

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

3 Price Risk

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

4 Credit Risk

The Group's principal financial assets are receivables under concession arrangements, pledged bank deposits, short-term bank deposits, bank balances and cash, securities and debt investments and trade and other receivables. The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made according to the Group's accounting policy or where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

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

CORPORATE GOVERNANCE REPORT

Great efforts have been dedicated to the promotion of the Group's sustainable development as the Board firmly believes that good corporate governance will enhance the Group's operational efficiency and sound management. In addition, a sound and effective system for risk management and internal control has been developed. To ensure the maintenance of a high standard of accountability and business transparency, the overall operation of the enterprise and the operating model of the Group have been closely monitored and regularly reviewed. Our philosophy of corporate sustainability has also been fully implemented to ultimately protect the interest of our shareholders and stakeholders.

CORPORATE GOVERNANCE STRUCTURE

Different functional committees and administrative units have been established to ensure that the principles of good governance are observed and that corporate governance measures formulated by the Board are properly implemented.

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

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Corporate Governance Code for the year ended 31 December 2017. Details of the principles and practices of governance of the Company and all major work and relevant changes during the year are set out in this report.

STRATEGIC OBJECTIVES AND BUSINESS MODEL

In accordance with its work plans, the Group has strategically positioned itself as a Hong Kong based company that counts on the support of mainland China. Through effective allocation of resources outside the mainland as well as integration of capital and business operations, the Group has successfully turned itself into an enterprise that has built its foundation on three core areas of business, including infrastructure and environmental protection, real estate and consumer products. Capitalizing on future development opportunities in China, the Group strives to become a integrated investment red chip window company that will constantly create value for its shareholders. Based on its own resources and the internal and external factors of development, the Company will expand its infrastructure and environmental protection business, and continue to pursue the steady development of its real estate business as well as to enhance the growth of its consumer products business in the future.

BOARD OF DIRECTORS

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

Composition of the Board

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

Name of Director	Executive position in the Board	Years of service in the Group
Executive Director		
Shen Xiao Chu	Chairman	1 month
Zhou Jun	Vice Chairman & Chief Executive Officer	12.5 years
Xu Bo	Deputy CEO	6 years
Xu Zhan	–	3.5 years
Independent Non-Executive Director		
Woo Chia-Wei	–	22 years
Leung Pak To, Francis	–	22 years
Cheng Hoi Chuen, Vincent	–	5.5 years
Yuen Tin Fan, Francis	–	1.75 years

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

No member of the Board is materially related to one another in terms of financial, business and family aspects. Brief biographical details of the Directors are set out on pages 53 to 55 of this Annual Report. In all corporate communication channels as well as the websites of the Company and the Stock Exchange, the composition of the Board according to the categories and duties of the Directors are disclosed.

Mr. Shen Xiao Chu and Mr. Zhou Jun are Chairman and Chief Executive Officer of the Company respectively. Interpretation of the Responsibilities between the Chairman and the Chief Executive Officer have been adopted for the distinction between the two positions.

Independent Non-Executive Directors

The Company has four Independent Non-Executive Directors. They have the same fiduciary duties as those of the Executive Directors. The number of Independent Non-Executive Directors accounts for more than one-third of the number of members of the Board while no less than one of the Independent Non-Executive Directors has the relevant financial expertise required. All Independent Non-Executive Directors are also members of the respective Audit Committee, Remuneration Committee and Nomination Committee. Confirmation from each Independent Non-Executive Director concerning his independence according to Rule 3.13 of the Listing Rules has been received and they are considered as independent. During the year, the Chairman has met the Independent Non-Executive Directors without the presence of Executive Directors.

CORPORATE GOVERNANCE REPORT

Replacement of Directors

For the year ended 31 December 2017 and up to the date of this report, the following changes were made to the Board of the Company:

- On 24 January 2017, Mr. Lu Shen has retired as an Executive Director and the Executive Deputy CEO of the Company as he has reached the retirement age.

- On 28 February 2018, Mr. Wang Wei has retired as an Executive Director and the Chairman of the Company as he has reached the retirement age. On the same date, being nominated by the Nomination Committee of the Company, Mr. Shen Xiao Chu has been appointed as an Executive Director and the Chairman of the Company.

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

Terms of the Directors

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

At the 2017 annual general meeting, Mr. Wang Wei, Mr. Xu Bo and Mr. Leung Pak To, Francis retired by rotation and were re-elected in accordance with the Company's articles of association.

At the upcoming 2018 annual general meeting, Mr. Zhou Jun, Prof. Woo Chia-Wei and Mr. Cheng Hoi Chuen, Vincent shall retire by rotation in accordance with the articles of association of the Company. All of them, being eligible, have offered themselves for re-election. As Prof. Woo Chia-Wei has served in the Company for more than nine years as Independent Non-Executive Director, we will put forth an individual resolution for his re-election to be passed by the shareholders, as according to the relevant requirements of the Corporate Governance Code. Meanwhile, Mr. Shen Xiao Chu shall retire at the meeting and offer himself for re-election by shareholders in accordance with the Company's articles of association and the Corporate Governance Code. All of their biographical details are set out in the circular to shareholders dispatched together with this Annual Report, so as to enable shareholders to make an informed decision on their election.

Responsibilities of Directors

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

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

Proceedings at Directors' Meetings

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

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

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

In 2017, 17 board meetings were held by the Company (12 of which were in the form of written resolutions). Please refer to the Business Review, Discussion and Analysis of this Annual Report for material decisions made by the Board during the year. The attendance of individual Directors and committee members in 2017 is set out below:

	Meetings held in 2017					
	Meetings attended/Meetings held					
	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Number of meetings held in the year	**17**	**10**	**3**	**1**	**1**	**1**
Executive Director						
Shen Xiao Chu[1]	0/0	0/0	–	–	–	0/0
Zhou Jun	17/17	10/10	–	–	–	1/1
Xu Bo	17/17	10/10	–	–	–	1/1
Xu Zhan	17/17	–	–	–	–	1/1
Wang Wei[2]	17/17	10/10	–	–	–	1/1
Lu Shen[3]	2/2	0/0	–	–	–	0/0
Independent Non-Executive Director						
Woo Chia-Wei	17/17	–	3/3	1/1	1/1	1/1
Leung Pak To, Francis	17/17	–	3/3	1/1	1/1	1/1
Cheng Hoi Chuen, Vincent	16/17	–	3/3	1/1	1/1	1/1
Yuen Tin Fan, Francis	16/17	–	3/3	1/1	1/1	1/1
Committee Members						
Li Han Sheng	–	–	–	1/1	1/1	–
Tang Ming	–	–	–	1/1	1/1	–
Attendance	99%	100%	100%	100%	100%	100%

Notes:
1. Appointed on 28 February 2018.
2. Retired on 28 February 2018.
3. Retired on 24 January 2017.
4. The attendance is accounted for by reference to the number of board meetings held during the tenure of each respective Director.

Securities Transactions by Directors

The Company has established its own Code for Securities Transactions by Directors or Relevant Employees, which was set on terms no less exacting than the required standards set out in the Model Code. Having made enquiries with all Directors and the relevant employees of the Company, each of them has confirmed that they have fully complied with the requirements of the Model Code and the code of the Company during 2017.

CORPORATE GOVERNANCE REPORT

Directors' Training

Based on the Directors' training records, the trainings received by each Director for the year ended 31 December 2017 is summarized as follows:

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

Functions of Corporate Governance

The Board of the Company is responsible for performing corporate governance duties to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board; to review and monitor the training and continuing professional development of Directors and senior management; to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Group's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

During the year, the Company also provided corporate governance guidelines and information from time to time to the Board members and member companies according to the latest laws and regulations, and ensured compliance with the relevant provisions of corporate governance by them. Furthermore, the Company has prepared the annual environmental, social and governance report according to relevant requirements of the Listing Rules, and formulated its Environmental, Social and Governance Policy to promote sustainable development and implement sound principles of environmental, social and corporate governance.

DELEGATION BY THE BOARD

Board Committees

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

Executive Committee

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

For the year ended 31 December 2017 and up to the date of this report, changes of the Executive Committee are as follows:

- On 24 January 2017, Mr. Lu Shen has retired as a committee member.
- On 28 February 2018, Mr. Wang Wei has retired as the chairman and a committee member. On the same date, Mr. Shen Xiao Chu has been appointed as the chairman and a committee member.

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

Major Work Done by the Executive Committee

In 2017, the Executive Committee held ten meetings in the form of written resolutions. The matters considered mainly included capital operation of its subsidiaries, capital injection of its subsidiaries, acquisition and disposal of project interest as well as subscription of shares of listed corporation by the Company.

Audit Committee

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

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

Major Work Done by the Audit Committee

In 2017, the Audit Committee held three meetings. The matters considered at the meetings included review of the Group's results, review of the Company's financial reporting, risk management and internal control systems, review of internal audit, non-audit services, human resources for accounting and financial reporting functions as well as appointment of external auditor for the coming year. During the year, not less than one meeting was held in the absence of Executive Directors for the Audit Committee to meet with the auditor.

Remuneration Committee

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

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

CORPORATE GOVERNANCE REPORT

Major Work Done by the Remuneration Committee

In 2017, the Remuneration Committee held one meeting. The matters considered included distribution and payment of discretionary bonuses to the Directors, proposed adjustments for the remuneration of Directors and senior management, etc.

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

Determination of Directors' Remuneration

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

Nomination Committee

The Nomination Committee is mainly responsible for setting highly transparent procedures of appointing new directors and director succession plans and making recommendations to the Board for candidates of new directors or for filling casual vacancies of the Board. The process of nomination starts from recommending a candidate to the committee by the controlling shareholder of the Company, after which the committee will submit the candidate to the Board for consideration in accordance with the benchmark of the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, racial, professional experience, technical, knowledge and lengths of service, etc., and based on the working experience, and expertise required for the position and the time and effort that the candidate may contribute to the Company.

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

Major Work Done by the Nomination Committee

In 2017, the Nomination Committee held one meeting in the form of written resolutions. The matters considered included review of the structure, size and composition of the Board and the evaluation of independence of independent non-executive directors, etc. As the members of the Board come with different professional perspectives, and in terms of the background of our major shareholder and operation model of the Company, the committee is of the view that the Board basically demonstrates a diversified composition and structure.

EXECUTIVE MANAGEMENT

Management Executives

The duties of the Executive Committee as authorized by the Board are delegated to the Management Executives under the committee and will be performed by the respective functional departments. As of the date of this report, members of the Management Executives included Mr. Zhou Jun, Mr. Xu Bo, Mr. Li Han Sheng, Mr. Xu Zhan and Mr. Xu Xiao Bing. The functional departments of the Company included administration, company secretarial, corporate communications, finance, human resources, internal audit, legal, investment operations and the Shanghai regional head office.

Investment Appraisal Committee

The Company has established an Investment Appraisal Committee to evaluate the viability of its investment projects from different perspectives based on their expertise. Professional views are given by various functional departments in accordance with the Company's overall business investment strategies. After studying carefully the key project elements, such as industry background, organizational structure, business development plans, return on investment, financial and legal risk issues, the committee will form independent professional opinion and submit its recommendations and reports to the management executives for consideration. Such appraisals will then be submitted to the Executive Committee for approval according to procedures governing corporate investment decision-making processes. The Investment Appraisal Committee mainly comprises representatives from functional departments at the Hong Kong headquarters. Current members of the committee are the Head of the Investment Operations Department, the Company Secretary and Chief Legal and Compliance Officer and the Chief Financial Officer. During the year, the Investment Appraisal Committee conducted appraisals on 13 projects.

COMPANY SECRETARY

The Company Secretary is mainly responsible for sound information communication among the members of the Board and the compliance of the policies and procedures of the Board and all applicable rules and regulations. The Company Secretary maintains a close relationship with each Director and the management and provides assistance and advice to the members of the Board when necessary. During the year, the Company Secretary provided assistance and opinion to the Chairman, Chief Executive Officer, other members of the Board and the management in respect of issues including policy and procedures of the Board, applicable laws and regulations and corporate governance from time to time and arranges continuous professional development programmes for the Directors. The selection, appointment and dismissal of the Company Secretary are approved by the Board. Brief biographical details of the Company Secretary are set out on page 55 of this Annual Report and the Company's website.

ACCOUNTABILITY AND AUDITING

Appointment of External Auditor

In considering the re-appointment of external auditor, the Audit Committee has taken into consideration its relationship with the Company and its independence in the provision of non-audit services. An independence report has been submitted to the committee by the external auditor. Pursuant to the above, the Audit Committee has recommended the Board to re-appoint Messrs. Deloitte Touche Tohmatsu as the external auditor for the Company for 2018, subject to approval by shareholders at the annual general meeting to be held on 24 May 2018.

The audit fee of the external auditor for 2017 amounted to HK$17,817,000. The Company has also established the Policies on Provision of Non-audit Services by External Auditor, and non-audit services were reported to the Audit Committee each year. The fees for the non-audit services provided to the Group by the Company's external auditor (including its affiliates) for the year were as follows:

Fees for non-audit services	2017 HK$'000	2016 HK$'000
Fees on financial due diligence of acquisition project and accountants' report	8,982	5,180
Tax consultation fee	535	318
Others	27	27
Total	**9,544**	5,525

CORPORATE GOVERNANCE REPORT

Preparation of Financial Statements

The financial statements and interim report of the Company were prepared in accordance with the disclosure requirements set forth in Appendix 16 to the Listing Rules and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the Companies Ordinance. The Board is responsible for preparing and reviewing the Group's accounts to ensure that they give a true and fair view on the financial position as well as the profits and cash flows of the Company. The Company has consistently applied appropriate accounting policies during the year, and has made prudent and reasonable judgments and estimates and prepared its accounts on a going concern basis. The external auditor stated in the independent auditor's report its opinion and report to the shareholders on the relevant financial statements, and such report is set out on pages 65 and 69 of this Annual Report.

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

Risk Management and Internal Control

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

For the year ended 31 December 2017, the Company has collected information and carried out investigations in respect of risk management and internal control issues for its subsidiaries. Key risk elements affecting the Group and contingency measures adopted were reported to the Audit Committee. No material deviation in the compliance guidance on risk management and internal controls by the subsidiaries was reported. All subsidiaries have complied with the relevant laws and industry regulations in respect of financial reporting and legal compliance. No material non-compliance of rules or material litigation risk was reported, nor was there any fraud or corruption issue. In addition, the Board and the Audit Committee considered that the resources allocated, staff qualifications and experience in respect of the accounting, internal auditing and financial reporting functions of the Company as well as training programs and budget were adequate and sufficient.

SHAREHOLDERS

As at 31 December 2017, SIIC, the controlling shareholder of the Company, indirectly held 640,900,748 shares of the Company (excluding the interest in the underlying shares and short positions) with a shareholding percentage at approximately 58.95% (excluding the underlying shares). The percentage of public shareholding was approximately 41.05%.

Connections with Shareholders, Other Stakeholders and Investors

The Company has established the Shareholders' Communication Policy to ensure that shareholders can exercise their powers in an informed manner, and to allow shareholders and investors to improve communications with the Company. In addition, the Board attaches great importance to shareholders' opinion. Each annual general meeting has been taken as an opportunity to communicate directly with shareholders and the questions raised by them will be addressed. Shareholders, other stakeholders and investors are also welcome to voice their concerns and valuable opinions by way of e-mails, telephone and in writing (details of which are contained on page 3 under the Section of "Shareholder Enquiries" of this Annual Report). These will be directed to the Company Secretary and forwarded to the Board.

Proceedings at General Meeting

The Company has established proceedings at general meetings which are subject to review and amendments according to regulatory requirements from time to time. During the year, at the general meetings of the Company, the chairman of the meeting exercised the power conferred under the articles of association of the Company that all voting for each proposed resolution was conducted by way of poll, with detailed procedures for voting by poll being provided to shareholders and all questions raised regarding voting being answered as well. Poll results were published by announcements on the same day of such general meetings after they had been held, while the same were uploaded on the website of the Company and the Stock Exchange for perusal by shareholders.

Rights of Shareholders

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

Convening a General Meeting

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

Moving a Motion at General Meeting

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

Recommendations of Director Candidates

Pursuant to article 105 of the articles of association of the Company, if a shareholder intends to nominate a person other than the retiring Directors for election as a Director at a general meeting, he/she shall deposit a written notice of such nomination to the Company's registered office for the attention of the Company Secretary within a period of seven days commencing on the following day after the dispatch of the notice of such meeting.

Significance Controllers Register

In accordance with new requirements under the Companies (Amendment) Ordinance 2018, the subsidiaries of the Company incorporated in Hong Kong have set up their respective significant controllers' register. This enhances the transparency of the beneficial ownership of such companies to a certain extent.

INVESTOR RELATIONS

In 2017, the stock and bond markets around the world resumed momentum and the global economy performed well. In line with its business development, the Company has maintained close communication with investors and put in a lot of efforts to promote corporate communications activities to keep its presence in the investment market. During 2017, we organized post-results announcement roadshows and luncheon meetings, participated in investment conferences held by investment banks, and conducted overseas roadshows jointly with SIIC Environment, our Singapore listed subsidiary which was in preparation for dual-listing in Hong Kong, at the end of the year. Throughout the year, we also met with around 150 institutional investors to familiarize them with the Company's operations and future development prospects. Such meetings were also intended to keep a rapport with investors, maintain the Company's transparency in the investment market and to enhance our level of governance.

CORPORATE GOVERNANCE REPORT

INFORMATION DISCLOSURE

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

CONSTITUTIONAL DOCUMENTS

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

HUMAN RESOURCES

Staff (including Directors) salaries, allowances and bonuses totaled HK$1,412 million for the year (2016: HK$1,200 million). Details of Directors' remuneration paid for the year ended 31 December 2017 are set out in note 11 to the financial statements. The remuneration payable to senior management of the Company by band for the year ended 31 December 2017 was as follows:

Remuneration by band (HK$)	2017 Number of individuals
0 – 1,000,000	0
1,000,001 – 2,000,000	2
	2

Share Options

The Company adopted the SIHL New Scheme and terminated the SIHL Scheme at the extraordinary general meeting held on 25 May 2012. Up to 31 December 2017, all outstanding share options under the SIHL Scheme were lapsed. Apart from that, no share options were granted or outstanding under the SIHL New Scheme during the year.

The SI Urban Development Scheme adopted by SI Urban Development, a subsidiary of the Company, on 12 December 2002 was expired on 11 December 2012, and the SI Urban Development New Scheme was adopted at the annual general meeting held on 16 May 2013. Up to 31 December 2017, 27,750,000 share options remained outstanding and unexercised under the SI Urban Development Scheme. Apart from that, no share options were granted or outstanding under the SI Urban Development New Scheme during the year.

SIIC Environment, a subsidiary of the Company, adopted the SIIC Environment Scheme at the extraordinary general meeting held on 27 April 2012. Up to 31 December 2017, no share options were granted or outstanding under the SIIC Environment Scheme.

Details of the SIHL Scheme, SIHL New Scheme, SI Urban Development Scheme, SI Urban Development New Scheme and SIIC Environment Scheme are set out in note 36 to the financial statements.

By Order of the Board

Yee Foo Hei

Company Secretary

28 March 2018

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. SHEN Xiao Chu *Executive Director, Chairman*

(Appointed on 28 February 2018 ~ Present)

Mr. Shen, aged 56, is currently the chairman of Shanghai Industrial Investment (Holdings) Company Limited. He graduated from Shanghai Second Medical University and Shanghai Jiaotong University respectively and holds a bachelor's degree in medicine, a bachelor's degree in law and an executive master of business administration, and is designated a deputy professor. Mr. Shen was a deputy officer of the Principal Office of Shanghai Second Medical University, deputy director of Shanghai Huangpu District Hygiene Bureau, hospital dean of Huangpu District Central Hospital, deputy mayor of Huangpu District, Shanghai, deputy mayor of Changning District, Shanghai, deputy officer of Shanghai Municipal Development and Reform Commission, officer of Shanghai Municipal Commission of Health and Family Planning, officer of Shanghai Municipal Development and Reform Commission and deputy secretary-general of the Shanghai Municipal Government. He has extensive experience in the leadership role in government authorities as well as in people's livelihood, medical and urban construction and management. Mr. Shen is a member of the 15th Shanghai Municipal People's Congress.

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

(Appointed on 15 April 2009 ~ Present)

Mr. Zhou, aged 49, is an executive director and the president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also the chairman of SIIC Environment Holdings Ltd., the chairman of SIIC Management (Shanghai) Ltd., Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Luqiao Development Co., Ltd., Shanghai Shen-Yu Development Co., Ltd. and a director of certain other subsidiaries of the Group. Mr. Zhou is a non-executive director and the chairman of Shanghai Pharmaceuticals Holdings Co., Ltd. He graduated from Nanjing University and Fudan University with a bachelor's and a master's degree in economics (international finance), and is designated an economist. Mr. Zhou currently is the chairman of Shanghai Galaxy Investments Co., Ltd. ("Shanghai Galaxy"). He worked for Guotai Securities Co., Ltd. (now Guotai Junan Securities Co.) before joining SIIC in April 1996. The management positions he had held within the SIIC group of companies were Deputy CEO of the Company, deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., deputy general manager of Shanghai United Industrial Co., Ltd., director and general manager of Shanghai Galaxy and general manager of the strategic investment department of SIIC. Mr. Zhou is currently a member of the executive committee of the Chinese People's Political Consultative Conference in Shanghai, the chairman of Shanghai Shengtai Investment and Management Limited under Shanghai Charity Foundation and the president of Shanghai Youth Entrepreneurs Association. He has over 20 years' professional experience in mergers and acquisitions, securities, finance, real estate, project planning and corporate management.

Mr. XU Bo *Executive Director, Deputy CEO*

(Appointed on 28 December 2012 ~ Present)

Mr. Xu, aged 55, is an executive director, vice president and chief financial controller of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"), the chairman of Nanyang Brothers Tobacco Company, Limited and a director of certain other subsidiaries of the Group. He holds a bachelor's degree and a master's degree in business administration and is designated a deputy professor. Mr. Xu was the general manager of the finance and planning department of SIIC, an executive deputy officer of the accounting department of Shanghai Lixin University of Commerce, a deputy general manager and chief financial officer of Shanghai Hualian Co., Ltd., an executive director, deputy general manager and chief financial officer of Shanghai Bailian Group Co., Ltd., a vice president of Bailian Group Co., Ltd. and a non-executive director of Lianhua Supermarket Holdings Co., Ltd. He has over 20 years' experience in finance and corporate management.

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Mr. XU Zhan *Executive Director*

(Appointed on 17 November 2016 ~ Present)

Mr. Xu, aged 48, is an assistant president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also an executive director of SIIC Environment Holdings Ltd. and a director of certain other subsidiaries of the Group. Mr. Xu graduated from Shanghai Jiaotong University and BI Norwegian School of Management with a bachelor's degree in engineering and a master's degree in management studies, and is a fellow member of The Association of Chartered Certified Accountants. He was the general manager and assistant general manager of Shanghai Galaxy Investment Co., Ltd. ("Shanghai Galaxy") and assistant general manager of the finance and planning department of SIIC. He is currently a director of Shanghai Galaxy and the chairman of SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd. Mr. Xu has many years' experience in finance and investment financing.

Independent Non-Executive Directors

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

(Appointed on 15 March 1996 ~ Present)

Prof. Woo, aged 80, is Senior Advisor of Shui On Holdings Limited and President Emeritus of the Hong Kong University of Science and Technology. In addition, Prof. Woo is currently an independent non-executive director of First Shanghai Investments Limited, a Hong Kong listed company.

Mr. LEUNG Pak To, Francis *Independent Non-Executive Director*

(Appointed on 15 March 1996 ~ Present)

Mr. Leung, aged 63, has over 30 years of experience in corporate finance involving in capital raisings, mergers and acquisitions, corporate restructuring and reorganisation, investments and other general corporate finance advisory activities in Hong Kong and China. He is the chairman of The Chamber of Hong Kong Listed Companies. In 1980, he graduated with a master's degree in business administration from University of Toronto, Canada.

Mr. CHENG Hoi Chuen, Vincent *Independent Non-Executive Director*

(Appointed on 13 November 2012 ~ Present)

Mr. Cheng, aged 69, is the adviser to the group chief executive of HSBC Holdings plc and is also an independent non-executive director of Great Eagle Holdings Limited, MTR Corporation Limited, Hui Xian Asset Management Limited (manager of the publicly listed Hui Xian Real Estate Investment Trust), CLP Holdings Limited, China Minsheng Banking Corp., Ltd., Wing Tai Properties Limited and CK Hutchison Holdings Limited. He is the former chairman of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited. Mr. Cheng was conferred the doctoral degree of social science, honoris causa, by The Chinese University of Hong Kong and the doctoral degree of business administration, honoris causa, by The Open University. Mr. Cheng also holds a bachelor of social science degree in economics from The Chinese University of Hong Kong and a master of philosophy degree in economics from The University of Auckland, New Zealand.

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

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

(Appointed on 15 July 2016 ~ Present)

Mr. Yuen, aged 65, is currently the independent non-executive deputy chairman of Pacific Century Regional Developments Limited and an independent non-executive director of Agricultural Bank of China Limited and Yixin Group Limited. Mr. Yuen was formerly chief executive of The Stock Exchange of Hong Kong Limited (1988-1991), deputy chairman and executive director of the Pacific Century Group, deputy chairman and executive director of PCCW Limited and executive chairman of Pacific Century Insurance Holdings Limited. Mr. Yuen holds a Bachelor of Arts degree in economics from the University of Chicago. He is the chairman of the board of trustees of the Hong Kong Centre for Economic Research, chairman of the advisory board of Ortus Capital Management Limited, and a member of the board of trustees of University of Chicago and Fudan University in Shanghai.

SENIOR MANAGEMENT

Mr. LI Han Sheng

Mr. Li, aged 54, was appointed a Deputy CEO of the Company in April 2012. He is also a general manager of human resources department of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He graduated from East China University of Science and Technology, Shanghai Technology University and Murdoch University with a bachelor's degree of science in engineering, a master's degree in computer science and a master's degree in business administration, and is designated a senior engineer. He was an officer of the information centre of Shanghai Wugang Holdings Ltd. engaged in enterprise management and information technology. He joined SIIC in September 1999, and was a director, the assistant general manager of operations management and cooperation department, deputy general manager of the administration department and secretary to chairman. He was also the head of the information technology department of the Company. He has more than 20 years' experience of corporate management and information technology.

Mr. XU Xiao Bing

Mr. Xu, aged 51, was appointed a Deputy CEO of the Company in November 2016. He is an executive director of SIIC Environment Holdings Ltd., a director of Nanyang Brothers Tobacco Company, Limited, as well as the vice chairman of General Water of China Co., Ltd. Mr. Xu graduated from Peking University with a master's degree in business administration. He was an investment and financial analyst of Beijing Jingfang Investment Management & Consultant Co., Ltd. under the Beijing Capital Group, the chief representative of Shanghai Representative Office of the Company, the deputy head of the investment planning department, the head of the enterprise management department, the deputy general manager and general manager of SIIC Management. He has over 20 years' experience in corporate management and investment planning.

PROFESSIONAL STAFF

Mr. YEE Foo Hei, Jackson

Mr. Yee, aged 54, joined the Company in September 2010. He is the Company Secretary and the Chief Legal and Compliance Officer of the Company. He graduated from City Polytechnic of Hong Kong (now City University of Hong Kong) and University of Wolverhampton, UK with a professional diploma in company secretaryship and administration and a LLB degree respectively. Mr. Yee is a fellow member of The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries & Administrators and The Association of Chartered Certified Accountants. Mr. Yee has more than 20 years' practical company secretarial experience in international accountancy firm, multi-national conglomerate and large-scale PRC stated-owned enterprise.

Ms. CHAN Yat Ying, Cherie

Ms. Chan, aged 50, joined the Company in November 1996. She is the Chief Financial Officer and an Assistant CEO of the Company and a director of certain other subsidiaries of the Group. Ms. Chan is also a deputy general manager of the finance and planning department of Shanghai Industrial Investment (Holdings) Company Limited and a member of the supervisory committee of Shanghai Industrial Development Co., Ltd. She graduated from University of Hong Kong with a bachelor's degree in social sciences. She also holds a master's degree in financial management awarded by the University of London. Ms. Chan is a member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Chinese Institute of Certified Public Accountants. She has extensive working experience in banking and accounting professions.

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT OF MEMBER COMPANIES

Mr. JI Gang

Mr. Ji, aged 60, is a director of Shanghai Industrial Investment (Holdings) Company Limited, the chairman and president of Shanghai Industrial Urban Development Group Limited, the chairman of Shanghai World Trade City Corp., Ltd. and a director of certain other subsidiaries of the Group. He graduated from Fudan University with a master's degree in economics and is designated a senior economist. Mr. Ji was the vice chairman and president of Shanghai Industrial Development Co., Ltd., the general manager of Zhongya Hotel, the chairman and general manager of Shanghai Everbright City Services Co., Ltd., an officer of the Commercial Committee and Economic Committee of the Municipal People's Government of Zhabei District, Shanghai, a vice president of SIIC Dongtan Investment & Development (Holdings) Co., Ltd., the president of Shanghai SIIC Urban Development Investment Co., Ltd. and an executive director and the president of SIIC Investment Co., Ltd. etc. He has nearly 40 years' experience in corporate management.

Mr. CENG Ming

Mr. Ceng, aged 48, is the chairman of Shanghai Industrial Development Co., Ltd. He graduated from Shanghai Urban Construction Vocational Institute with a bachelor of Engineering and holds the designation of a senior engineer. Mr. Ceng was a deputy head of Shanghai Highway Administration Office, a deputy officer of Shanghai Huchong Yuejiang Passageway Preparatory Office, a deputy general manager of Shanghai Huchong Yuejiang Passageway Investment Co., Ltd., head of finance division and the construction and operation management division of the Shanghai Municipal Engineering Administration Bureau, head of the construction market supervision division of Shanghai Municipal Urban-Rural Development and Transportation Commission, chief of Shanghai Municipal Building Industry Management Office and deputy general manager of China Construction Eighth Engineering Division Corp. Ltd. He has over 20 years' experience in corporate management.

Mr. TANG Jun

Mr. Tang, aged 50, is a director and president of Shanghai Industrial Development Co., Ltd. and a director of certain other subsidiaries of the Group. He graduated from University of South Australia with a master's degree in business administration and holds the designation of a senior auditor, and is an associate of The Chinese Institute of Certified Public Accountants. Mr. Tang was an Executive Director of the Company, the general manager of the internal audit department and deputy general manager of the finance and planning department of Shanghai Industrial Investment (Holdings) Company Limited and the Deputy Director of the Foreign Funds Utilization Audit Department, Shanghai Municipal Audit Office, and has over 20 years' practical experience in the fields of auditing and finance.

Mr. FENG Jun

Mr. Feng, aged 54, is an executive director of SIIC Environment Holdings Ltd., the chief representative of Shanghai Representative Office of the Company and a director and the general manager of SIIC Management (Shanghai) Ltd. He graduated from the Economics and Management School of Wuhan University and obtained a master's degree in economics. Mr. Fung was an Assistant CEO and the Chief Investment Officer of the Company, a director of Nanyang Brothers Tobacco Company, Limited, a deputy manager of trust department of Shanghai International Trust Co., a director and vice president of SIIC Investment Company Limited and a director and deputy general manager of The Tien Chu (Hong Kong) Company Limited. He has nearly 30 years' experience in capital markets operation.

Mr. YANG Zhang Min

Mr. Yang, aged 55, is an executive director of SIIC Environment Holdings Ltd. Mr. Yang graduated from Tongji University with a bachelor's degree in environmental engineering and the School of Economic and Management of Tsinghua University with a master's degree in EMBA. He was the general manager of Shenzhen Longgang Baolong Industrial Co. and the chairman and general manager of Shenzhen Longgang Guotong Industrial Co., Ltd. He was the founder of United Environment Co. in the year 2003 and had been the chairman and general manager for years. He has over 20 years' experience in operation and management of water and environmental protection investment as well as project and administrative management.

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Mr. DAI Wei Wei

Mr. Dai, aged 49, is a director and the general manager of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Shen-Yu Development Co., Ltd., a director of Shanghai Luqiao Development Co., Ltd. and SIIC Management (Shanghai) Limited. Mr. Dai graduated from Shanghai Tongji University and Fudan University and obtained a bachelor's degree in engineering and a master's degree in business administration respectively. He worked in Shanghai Mass Transit Railway Corporation, Shanghai Municipal Engineering Administration, Shanghai Jiajin Highway Development Co., Ltd. He has over 20 years' experience in construction and management of infrastructure.

Mr. CHEN Wei Yi

Mr. Chen, aged 57, is a director and the general manager of Shanghai Luqiao Development Co., Ltd., a director of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Shen-Yu Development Co., Ltd. and the vice chairman of Ningbo Hangzhou Bay Bridge Development Co., Ltd. Mr. Chen graduated from The People's Liberation Army of Institute of Electronic Engineering majored in radar engineering and obtained a bachelor's degree of science in engineering, and is designated a senior engineer. He was the deputy general manager of Shanghai Huang Pu River Tunnel and Bridges Development Co., Ltd. and the general manager of Shanghai CITIC Tunnel Development Co., Ltd. He has extensive experience in operation management and maintenance of bridge, tunnel and highway.

Mr. YANG Qiu Hua

Mr. Yang, aged 45, is a director and the general manager of Nanyang Brothers Tobacco Company, Limited. He graduated from East China University of Science and Technology with a master's degree. He holds the designation of senior engineer and economist. Mr. Yang was a vice president of SIIC Investment (Shanghai) Co., Ltd., the vice chairman and general manager of SIIC Investment Company Limited, the chairman of The Tien Chu (Hong Kong) Company Limited and Shanghai International Asset Management (Hong Kong) Company Limited as well as the managing director of Shanghai Sunway Biotech Co., Ltd. He has extensive experience in enterprise management.

Mr. XU Guo Xiong

Mr. Xu, aged 61, is the chairman and chief executive officer of The Wing Fat Printing Company, Limited and the chairman of The Wing Fat Printing (Hong Kong) Limited and Wingfat (Dongguan) Printing Co., Ltd. He is also a vice president of China Packaging Federation. Mr. Xu graduated from Shanghai Normal University majored in Chinese language and literature and Asia International Open University (Macau) with a master's degree in business administration, and is designated a senior policy advisor, leader in Shanghai. He was the president and executive director of the Shanghai Pharmaceuticals Holdings Co., Ltd., an executive director and vice president of Shanghai Pharmaceutical (Group) Co., Ltd., the general manager's assistant and deputy general manager of Shanghai Bicycle Group Co., Ltd, the general manager of the department of industry and the president's assistant of China Hua Yuan Group Co., Ltd, the vice chairman and general manager of Hua Yuan Kai Ma Machinery Co., Ltd., the vice chairman of the China Pharmaceutical Industry Research and Development Association and the vice chairman of China Pharmaceutical Industry Association. He has extensive experience in the decision-making and operations management in large enterprises.

Mr. JIN Guo Ming

Mr. Jin, aged 57, is a director and the general manager of The Wing Fat Printing Company, Limited. He graduated from Zhejiang Institute of Metallurgy Economic and obtained a master's degree in business management from South Australia University. He holds the designation of international business engineer. Mr. Jin has over 30 years of experience in the printing and packaging industry.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Details of the principal subsidiaries, joint ventures and associates as at 31 December 2017 are set out in notes 47, 48 and 49 to the consolidated financial statements respectively.

BUSINESS REVIEW

A fair review of the Group's business including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business is set out in the section of "Business Review, Discussion and Analysis" on pages 10 to 34 of this Annual Report.

Disclosures relating to the compliance with relevant laws and regulations which have a significant impact on the Group as well as its relationships with its major stakeholders are included in the "Corporate Governance Report" on pages 42 to 52 of this Annual Report.

Such discussion forms part of this Directors' Report.

DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the Group's financial position on that date are set out in the Group's consolidated financial statements on pages 70 to 179 of this Annual Report.

An interim dividend of HK46 cents per share amounting to HK$500,117,000 was paid to the shareholders during the year. The Directors recommended the payment of a final dividend of HK48 cents per share to the shareholders whose names appear on the register of members of the Company on 31 May 2018.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the year ended 31 December 2017 and the previous four years is set out on page 180 of this Annual Report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2017 represented retained profits of HK$16,270,596,000 (2016: HK$14,764,214,000).

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Shen Xiao Chu *(Chairman)*	(appointed on 28 February 2018)
Zhou Jun *(Vice Chairman & Chief Executive Officer)*	
Xu Bo *(Deputy CEO)*	
Xu Zhan	
Wang Wei	(retired on 28 February 2018)
Lu Shen	(retired on 24 January 2017)

Independent Non-Executive Directors

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

Mr. Wang Wei retired as an Executive Director and Chairman of the Company with effect from 28 February 2018 upon reaching his retirement age.

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

The biographical details of the Directors are set out on pages 53 to 55 of this Annual Report. Details of Directors' emoluments are set out in note 11 to the consolidated financial statements.

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

In accordance with the Company's articles of association, Mr. Shen Xiao Chu who was newly appointed as a Director of the Company in February 2018 shall retire at the forthcoming annual general meeting. He, being eligible, has offered himself for re-election at the forthcoming annual general meeting.

DIRECTORS OF THE SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2017 and up to the date of this report are available on the website of the Company.

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2017 and up to the date of this report, the Company has in force permitted indemnity provisions for the benefits of the directors of the Company (including former directors) or of its associated companies.

DIRECTORS' REPORT

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

Changes in Directors' information since the date of the interim report 2017 and up to the date of this report are set out below:

Mr. Zhou Jun
- appointed as the president of Shanghai Youth Entrepreneurs Association on 12 January 2018.
- redesignated as the non-executive chairman of SIIC Environment on 12 March 2018.
- has tendered his resignation as an independent non-executive director of Zhejiang Expressway Co., Ltd. on 14 February 2018, but will remain as director until a new independent non-executive director is appointed at the forthcoming extraordinary general meeting of the company.

Mr. Leung Pak To, Francis
- was no longer a member of the 12th National Committee of the Chinese People's Political Consultative Conference on 28 February 2018.

Mr. Yuen Tin Fan, Francis
- appointed as an independent non-executive director of Yixin Group Limited on 6 November 2017.
- was no longer a member of the Shanghai People's Political Consultative Conference on 31 December 2017.

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

At 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interests in shares and underlying shares of the Company

Name of Director	Capacity	Nature of interests	Number of issued ordinary shares held	Approximate percentage of the issued share capital
Zhou Jun	Beneficial owner	Personal	195,000	0.02%

Note: All interests stated above represent long positions.

Save as disclosed above, none of the Directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2017.

EQUITY-LINKED AGREEMENTS

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

Share options

Particulars of the share option schemes adopted by the Group are set out in note 36 to the consolidated financial statements.

(I) SIHL Scheme

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

	Date of grant	Exercise price per share HK$	Number of shares issuable under the share options Outstanding at 1.1.2017	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2017
Category 1: Directors						
Xu Bo	16.5.2012	23.69	600,000	(106,000)	(494,000)	–
Category 2: Employees	16.5.2012	23.69	540,000	(540,000)	–	–
Total for all categories			**1,140,000**	**(646,000)**	**(494,000)**	**–**

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

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

During the year, the weighted average closing price of the Company's shares immediately before the respective dates on which the share options were exercised is HK$24.19.

(II) SIHL New Scheme

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

(III) SI Urban Development Scheme

The SI Urban Development Scheme was valid and effective for a period of 10 years commencing the date of its adoption and expired on 11 December 2012. During the year, the movements in the share options to subscribe for SI Urban Development's shares under the SI Urban Development Scheme were as follows:

	Date of grant	Exercise price per share HK$	Number of shares issuable under the share options Outstanding at 1.1.2017	Reclassified during the year	Cancelled during the year	Outstanding at 31.12.2017
Category 1: a former director of SI Urban Development, who is also a Director of the Company						
Zhou Jun (Note)	24.9.2010	2.98	7,000,000	–	(7,000,000)	–
Category 2: Other directors of SI Urban Development	24.9.2010	2.98	22,000,000	6,000,000	(7,000,000)	21,000,000
Category 3: Employees of SI Urban Development	24.9.2010	2.98	12,750,000	(6,000,000)	–	6,750,000
Total for all categories			**41,750,000**	**–**	**(14,000,000)**	**27,750,000**

Note: Mr. Zhou Jun resigned as a director of SI Urban Development on 30 June 2017.

DIRECTORS' REPORT

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

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

(IV) SI Urban Development New Scheme

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

(V) SIIC Environment Scheme

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

Convertible Bonds

Particulars of the convertible bonds issued, repurchased and redeemed by the Group are set out in note 34 to the consolidated financial statements.

Tong Jie Limited, a wholly owned subsidiary of the Company, issued zero coupon convertible bonds with a principal amount of HK$3,900,000,000 (the "Convertible Bonds") to public investors in February 2013. The bonds were guaranteed by the Company and listed on the Stock Exchange. On 18 February 2018, the Convertible Bonds became mature and hence the outstanding balance of HK$32,000,000 was redeemed and cancelled in full.

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY

Save as disclosed under the section "Equity-linked Agreements" above, neither the Company or a specified undertaking (within the meaning of the Companies Ordinance) of the Company was a party to any other arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during or at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the interests and short positions of the substantial shareholders of the Company and other persons, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of shareholder	Capacity	Nature of interests	Number of issued ordinary shares beneficially held	Approximate percentage of the issued share capital
SIIC	Interests held by controlled corporations	Corporate	640,900,748 (Note 1)	58.95%

Notes:

1. SIIC through its subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, Shanghai Industrial Financial (Holdings) Company Limited, SIIC Treasury (B.V.I.) Limited, SIIC CM Development Funds Limited and SIIC CM Development Limited held 519,409,748 shares, 80,000,000 shares, 32,581,000 shares, 5,895,000 shares, 3,005,000 shares and 10,000 shares of the Company respectively, and was accordingly deemed to be interested in the respective shares held by the aforementioned companies.

2. All interests stated above represent long positions.

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2017.

CONNECTED TRANSACTIONS

Details of the connected transactions and continuing connected transactions for the year are set out in note 44(I) to the consolidated financial statements. Save as disclosed therein, there were no other connected transactions and continuing connected transactions, other than those which are exempt from the reporting, announcement and independent shareholders' approval requirements, which need to be disclosed as connected transactions and continuing connected transactions in accordance with the requirements of Appendix 16 to the Listing Rules.

Pursuant to Rule 14A.56 of the Listing Rules, the Directors engaged the auditor of the Company to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 44(II) to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

For the year ended 31 December 2017, SI Urban Development, a subsidiary of the Company, bought back a total of 300,000 of its own ordinary shares on the Stock Exchange for a total consideration of approximately HK$481,000, and all these shares were cancelled. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DIRECTORS' REPORT

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$3,251,000.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 43 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, based on publicly available information and within the knowledge of the Directors of the Company, 41.05% of the issued share capital of the Company is held by the public.

The Company has maintained a sufficient public float throughout the year ended 31 December 2017.

CORPORATE GOVERNANCE

The corporate governance principles and practices adopted by the Company are set out in the Corporate Governance Report on pages 42 to 52 of this Annual Report.

AUDITOR

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

On behalf of the Board

Shen Xiao Chu
Chairman

Hong Kong, 28 March 2018

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Shanghai Industrial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 70 to 179, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Control over SIIC Environment Holdings Ltd. ("SIIC Environment")	
We identified the control over SIIC Environment as a key audit matter due to the significant judgment associated with the assessment of control over SIIC Environment performed by the directors of the Company during the year ended 31 December 2017. As disclosed in Note 4 to the consolidated financial statements, SIIC Environment is listed on the Singapore Exchange Securities Trading Limited. The Group had only 46.30% (2016: 37.57%) ownership interest and voting rights in SIIC Environment as at 31 December 2017. The directors of the Company assessed whether the Group had the practical ability to direct the relevant activities of SIIC Environment unilaterally by considering the Group's absolute size of holding in SIIC Environment, the relative size and dispersion of holdings of other shareholders and the practical right to appoint the majority members of the board of directors of SIIC Environment. After their assessment, the directors of the Company concluded that the Group has the current ability to direct the relevant activities of SIIC Environment and affect the amount of the Group's return. Therefore, the Group has control over SIIC Environment throughout the whole year ended 31 December 2017.	Our procedures in relation to the control over SIIC Environment included: • Obtaining an understanding of the assessment of control performed by the directors of the Company to evaluate their basis based on the requirements of HKFRS 10 "Consolidated Financial Statements"; • Checking the percentage of equity interest in SIIC Environment owned by the Group and its voting rights as well as assessing the percentage of equity interests and voting rights owned by the remaining shareholders; • Assessing the practical right to appoint the majority members of the board of directors of SIIC Environment; and • Examining the Group's attendance and voting records in shareholders' meetings of SIIC Environment.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to its significance to the consolidated financial statements as whole and the significant judgment and estimation associated with determining the fair values of investment properties. As disclosed in Note 14 to the consolidated financial statements, the fair values of the Group's investment properties amounted to HK$22,615,656,000 as at 31 December 2017 with an increase in fair value of investment properties before taxation of HK$65,207,000 recognised in the consolidated statement of profit or loss for the year then ended under the line item "other income, gains and losses". The fair values of the Group's investment properties as at 31 December 2017 have been arrived at on the basis of valuations carried out by an independent qualified professional valuer not connected with the Group (the "Valuer"). Details of the valuation techniques and significant unobservable inputs used in the calculations are disclosed in Note 14 to the consolidated financial statements. The fair values are dependent on certain significant unobservable inputs that involve judgment and estimation made by the management of the Group together with the Valuer, including, among other factors, reversionary yield, adjustments to transaction prices and discount rates.	Our procedures in relation to the valuation of the investment properties included: • Evaluating the competence, capabilities and objectivity of the Valuer; • Obtaining an understanding from the Valuer and the management of the Group on the valuation process to understand the performance of property markets, significant assumptions adopted and data used in the valuations; • Evaluating the reasonableness of the methodologies adopted in the valuation models; and • Assessing the reasonableness of the significant unobservable inputs used in the valuation models by checking, on a sample basis, the publicly available information and comparing the data used in the valuations to entity-specific historical information.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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 Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	29,504,287	22,131,758
Cost of sales		(17,678,032)	(14,460,588)
Gross profit		11,826,255	7,671,170
Net investment income	6	850,218	731,408
Other income, gains and losses		1,106,141	888,455
Selling and distribution costs		(1,080,602)	(1,070,256)
Administrative and other expenses		(2,378,922)	(2,307,635)
Finance costs	7	(1,781,329)	(1,426,982)
Share of results of joint ventures		231,782	214,147
Share of results of associates		390,048	73,030
Gain on derecognition/disposal of interests in associates/disposal of assets through disposal of interests in subsidiaries	8	229,270	2,725,933
Profit before taxation		9,392,861	7,499,270
Income tax expense	9	(4,235,224)	(2,659,370)
Profit for the year	10	5,157,637	4,839,900
Profit for the year attributable to			
– Owners of the Company		3,150,472	2,903,030
– Non-controlling interests		2,007,165	1,936,870
		5,157,637	4,839,900
		HK$	HK$
Earnings per share	13		
– Basic		2.898	2.673
– Diluted		2.897	2.639

The notes on pages 79 to 179 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	5,157,637	4,839,900
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss		
Exchange differences arising on translation of foreign operations		
– subsidiaries	4,082,787	(2,594,309)
– joint ventures	270,224	(248,214)
– associates	354,280	(255,669)
Fair value change on available-for-sale investments held by subsidiaries	12,539	27,469
Reclassification on derecognition of available-for-sale investments held by subsidiaries	(45,478)	(66)
Reclassification of translation reserve upon disposal of associates	(7,650)	(11,106)
Other comprehensive income (expense) for the year	4,666,702	(3,081,895)
Total comprehensive income for the year	9,824,339	1,758,005
Total comprehensive income for the year attributable to		
– Owners of the Company	5,766,297	760,325
– Non-controlling interests	4,058,042	997,680
	9,824,339	1,758,005

The notes on pages 79 to 179 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-Current Assets			
Investment properties	14	22,615,656	18,619,278
Property, plant and equipment	15	5,026,406	4,388,915
Prepaid lease payments – non-current portion	16	254,159	243,135
Toll road operating rights	17	9,718,405	9,812,934
Goodwill	18	848,012	809,347
Other intangible assets	19	7,895,262	7,325,733
Interests in joint ventures	20	3,861,399	3,467,597
Interests in associates	21	5,076,505	3,378,695
Investments	22	796,723	1,170,084
Receivables under service concession arrangements – non-current portion	23	15,875,734	12,489,936
Deposits paid on acquisition of subsidiaries/property, plant and equipment	24	526,706	139,974
Other non-current receivables	25	26,739	58,732
Deferred tax assets	26	308,927	458,621
		72,830,633	62,362,981
Current Assets			
Inventories	27	51,884,480	45,899,422
Trade and other receivables	28	10,823,840	9,242,575
Prepaid lease payments – current portion	16	5,707	5,293
Investments	22	483,045	226,967
Receivables under service concession arrangements – current portion	23	330,247	244,374
Amounts due from customers for contract work	29	1,291,540	710,079
Prepaid taxation		753,827	503,469
Pledged bank deposits	30	751,162	430,853
Short-term bank deposits	30	537,466	309,705
Bank balances and cash	30	31,637,868	31,312,457
		98,499,182	88,885,194

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Current Liabilities			
Trade and other payables	31	17,457,019	14,665,883
Customer deposits from sales of properties	32	15,997,582	14,776,557
Amounts due to customers for contract work	29	20,084	23,879
Taxation payable		4,305,406	4,207,441
Bank and other borrowings	33	11,703,042	8,553,493
Convertible bonds	34	33,449	32,722
		49,516,582	42,259,975
Net Current Assets		48,982,600	46,625,219
Total Assets less Current Liabilities		121,813,233	108,988,200
Capital and Reserves			
Share capital	35	13,649,839	13,633,449
Reserves	35	27,930,013	23,282,840
Equity attributable to owners of the Company		41,579,852	36,916,289
Non-controlling interests		29,373,380	25,556,228
Total Equity		70,953,232	62,472,517
Non-Current Liabilities			
Provision for major overhauls	23	85,333	82,077
Bank and other borrowings	33	41,017,149	37,595,994
Deferred tax liabilities	26	9,757,519	8,837,612
		50,860,001	46,515,683
Total Equity and Non-Current Liabilities		121,813,233	108,988,200

The notes on pages 79 to 179 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 70 to 179 were approved and authorised for issue by the board of directors on 28 March 2018 and are signed on its behalf by:

Zhou Jun
Chief Executive Officer

Xu Bo
Deputy CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company											Attributable to non-controlling interests			
	Share capital HK$'000	Share options reserve HK$'000	Convertible bonds equity reserve HK$'000	Other revaluation reserve HK$'000 (note i)	Other reserve HK$'000 (note ii)	Merger reserve HK$'000 (note iii)	Investment revaluation reserve HK$'000	Translation reserve HK$'000	PRC statutory reserves HK$'000 (note iv)	Retained profits HK$'000	Sub-total HK$'000	Share options reserve of a listed subsidiary HK$'000	Share of net assets of subsidiaries HK$'000	Sub-total HK$'000	Total HK$'000
At 1 January 2016	13,615,889	27,883	104,956	54,855	820,117	(5,777,185)	373,565	1,563,502	1,324,209	23,923,843	36,031,634	49,367	19,212,249	19,261,616	55,293,250
Profit for the year	–	–	–	–	–	–	–	–	–	2,903,030	2,903,030	–	1,936,870	1,936,870	4,839,900
Exchange differences arising on translation of foreign operations															
– subsidiaries	–	–	–	–	–	–	–	(1,636,177)	–	–	(1,636,177)	–	(958,132)	(958,132)	(2,594,309)
– joint ventures	–	–	–	–	–	–	–	(248,214)	–	–	(248,214)	–	–	–	(248,214)
– associates	–	–	–	–	–	–	–	(255,669)	–	–	(255,669)	–	–	–	(255,669)
Fair value change on available-for-sale investments held by subsidiaries	–	–	–	–	–	–	8,527	–	–	–	8,527	–	18,942	18,942	27,469
Reclassification on derecognition of available-for-sale investments held by subsidiaries	–	–	–	–	–	–	(66)	–	–	–	(66)	–	–	–	(66)
Reclassification upon disposal of associates	–	–	–	–	–	–	–	(11,106)	(4,385)	4,385	(11,106)	–	–	–	(11,106)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	8,461	(2,151,166)	(4,385)	2,907,415	760,325	–	997,680	997,680	1,758,005
Issue of shares upon exercise of share options	17,560	(1,323)	–	–	–	–	–	–	–	–	16,237	–	–	–	16,237
Lapse of share options	–	(24,632)	–	–	–	–	–	–	–	24,632	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–	238,585	(238,585)	–	–	–	–	–
Capital contributions by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	225,894	225,894	225,894
Contribution from a non-controlling shareholder upon capitalisation of its borrowing to the Group	–	–	–	–	–	–	–	–	–	–	–	–	2,315,555	2,315,555	2,315,555
Acquisition of Longjiang Environmental Protection (Note 37(III))	–	–	–	–	–	–	–	–	–	–	–	–	305,292	305,292	305,292
Acquisition of subsidiaries (Note 37(V))	–	–	–	–	–	–	–	–	–	–	–	–	537,069	537,069	537,069
Acquisition of additional interest in a listed subsidiary	–	–	–	–	(56,787)	–	–	–	–	–	(56,787)	–	(105,372)	(105,372)	(162,159)
Acquisition of additional interests in subsidiaries	–	–	–	–	(19,385)	–	–	–	–	–	(19,385)	–	(1,082,772)	(1,082,772)	(1,102,157)
Deemed partial disposal of interest in a listed subsidiary upon issuance of consideration shares (Note 37(V))	–	–	–	–	48,039	–	–	–	–	–	48,039	–	117,412	117,412	165,451
Deemed partial disposal of interest in a listed subsidiary upon shares placement (note v)	–	–	–	–	1,242,263	–	–	–	–	–	1,242,263	–	3,172,541	3,172,541	4,414,804
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(25,917)	(25,917)	(25,917)
Dividends paid (Note 12)	–	–	–	–	–	–	–	–	–	(988,453)	(988,453)	–	–	–	(988,453)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(161,955)	(161,955)	(161,955)
Dividends declared by Yield Express (as defined in Note 44(I)(k)) and payable to SIIC	–	–	–	–	–	–	–	–	–	(53,046)	(53,046)	–	–	–	(53,046)
Redemption of convertible bonds (Note 34)	–	–	(100,848)	–	–	–	–	–	–	34,014	(66,834)	–	–	–	(66,834)
Repurchase of convertible bonds (Note 34)	–	–	(3,169)	–	–	–	–	–	–	4,650	1,481	–	–	–	1,481
Transfer upon forfeiture of share options of a listed subsidiary	–	–	–	–	–	–	–	–	–	815	815	(1,165)	350	(815)	–
At 31 December 2016	13,633,449	1,928	939	54,855	2,034,247	(5,777,185)	382,026	(587,664)	1,558,409	25,615,285	36,916,289	48,202	25,508,026	25,556,228	62,472,517

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company											Attributable to non-controlling interests			
	Share capital HK$'000	Share options reserve HK$'000	Convertible bonds equity reserve HK$'000	Other revaluation reserve HK$'000 (note i)	Other reserve HK$'000 (note ii)	Merger reserve HK$'000 (note iii)	Investment revaluation reserve HK$'000	Translation reserve HK$'000	PRC statutory reserves HK$'000 (note iv)	Retained profits HK$'000	Sub-total HK$'000	Share options reserve of a listed subsidiary HK$'000	Share of net assets of subsidiaries HK$'000	Sub-total HK$'000	Total HK$'000
At 1 January 2017	13,633,449	1,928	939	54,855	2,034,247	(5,777,185)	382,026	(587,664)	1,558,409	25,615,285	36,916,289	48,202	25,508,026	25,556,228	62,472,517
Profit for the year	–	–	–	–	–	–	–	–	–	3,150,472	3,150,472	–	2,007,165	2,007,165	5,157,637
Exchange differences arising on translation of foreign operations															
– subsidiaries	–	–	–	–	–	–	–	2,050,886	–	–	2,050,886	–	2,031,901	2,031,901	4,082,787
– joint ventures	–	–	–	–	–	–	–	270,224	–	–	270,224	–	–	–	270,224
– associates	–	–	–	–	–	–	–	354,280	–	–	354,280	–	–	–	354,280
Fair value change on available-for-sale investments held by subsidiaries	–	–	–	–	–	–	(6,874)	–	–	–	(6,874)	–	19,413	19,413	12,539
Reclassification on derecognition of available-for-sale investments held by subsidiaries	–	–	–	–	–	–	(45,478)	–	–	–	(45,478)	–	–	–	(45,478)
Reclassification of translation reserve upon disposal of an associate	–	–	–	–	–	–	–	(7,213)	(15,252)	15,252	(7,213)	–	(437)	(437)	(7,650)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	(52,352)	2,668,177	(15,252)	3,165,724	5,766,297	–	4,058,042	4,058,042	9,824,339
Issue of shares upon exercise of share options	16,390	(1,093)	–	–	–	–	–	–	–	–	15,297	–	–	–	15,297
Lapse of share options	–	(835)	–	–	–	–	–	–	–	835	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–	279,856	(279,856)	–	–	–	–	–
Capital contributions by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	47,985	47,985	47,985
Capital injection in a listed subsidiary upon shares placement (note vi)	–	–	–	–	(56,246)	–	–	–	–	–	(56,246)	–	56,246	56,246	–
Capital contribution from a non-controlling shareholder of a subsidiary upon capitalisation of its advance to the Group	–	–	–	–	–	–	–	–	–	–	–	–	2,076	2,076	2,076
Acquisition of a subsidiary from SIIC	–	–	–	–	(3,104)	–	–	–	–	1,504	(1,600)	–	1,313	1,313	(287)
Acquisition of subsidiaries (Note 37(I))	–	–	–	–	–	–	–	–	–	–	–	–	541,755	541,755	541,755
Acquisition of additional interest in a listed subsidiary	–	–	–	–	4,607	–	–	–	–	–	4,607	–	(32,474)	(32,474)	(27,867)
Acquisition of additional interests in subsidiaries	–	–	–	–	(1,956)	–	–	–	–	–	(1,956)	–	(295,380)	(295,380)	(297,336)
Repurchase of shares by a listed subsidiary	–	–	–	–	(337)	–	–	–	–	–	(337)	–	(144)	(144)	(481)
Dividends paid (Note 12)	–	–	–	–	–	–	–	–	–	(1,000,234)	(1,000,234)	–	–	–	(1,000,234)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(550,857)	(550,857)	(550,857)
Dividends declared by Yield Express and payable to SIIC	–	–	–	–	–	–	–	–	–	(73,675)	(73,675)	–	–	–	(73,675)
Transfer upon forfeiture of share options of a listed subsidiary	–	–	–	–	–	–	–	–	–	11,410	11,410	(16,310)	4,900	(11,410)	–
At 31 December 2017	13,649,839	–	939	54,855	1,977,211	(5,777,185)	329,674	2,080,513	1,823,013	27,440,993	41,579,852	31,892	29,341,488	29,373,380	70,953,232

The notes on pages 79 to 179 are an integral part of these consolidated financial statements.

Notes:

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

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

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

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

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

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

(vi) On 5 May 2017, a non-wholly owned listed subsidiary of the Group, SIIC Environment Holdings Ltd. ("SIIC Environment"), completed a share placing of 350,000,000 new shares at a placement price of Singapore dollar ("S$") 0.63 (equivalent to approximately HK$3.49) per placement share to the Company. The Company indirectly holds an aggregate of 1,197,688,226 shares in SIIC Environment, and the Group's shareholding in SIIC Environment increased from 37.57% to 45.95%.

The Group accounts for the above shares placing as an equity transaction and the decrease of the Group's interest in SIIC Environment's net assets amounting to approximately HK$56 million was charged to other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	9,392,861	7,499,270
Adjustments for:		
Amortisation of other intangible assets	339,871	206,108
Amortisation of toll road operating rights	805,438	809,009
Depreciation of property, plant and equipment	385,544	365,693
Dividend income from equity investments	(6,703)	(9,057)
Finance costs	1,781,329	1,426,982
Gain from bargain purchase of interest in a subsidiary	(8,097)	–
Gain on disposal of available-for-sale investments	(14,881)	(15,374)
Gain on derecognition/disposal of interests in associates/disposal of assets through disposal of interests in subsidiaries	(229,270)	(2,725,933)
Gain on redemption of convertible bonds	–	(66,415)
Loss on repurchase of convertible bonds	–	850
Impairment loss on bad and doubtful debts	34,710	55,156
Impairment loss on inventories, other than properties	12,601	4,475
Impairment loss on properties held for sale	280,519	224,631
Impairment loss on goodwill	–	38,235
Impairment loss on interest in an associate	–	969
Increase in fair value of investment properties	(65,207)	(305,450)
Interest income	(755,416)	(698,116)
Net loss on disposal/written off of property, plant and equipment	5,394	762
Provision for major overhauls	54	5,739
Release of prepaid lease payments	7,517	7,484
Reversal of impairment loss on bad and doubtful debts	(38,599)	(2,719)
Reversal of impairment loss on other intangible assets	(28,229)	–
Reversal of impairment loss on other receivables	(4,896)	(6,277)
Share of results of associates	(390,048)	(73,030)
Share of results of joint ventures	(231,782)	(214,147)
Operating cash flows before movements in working capital	11,272,710	6,528,845
(Increase) decrease in inventories	23,780	4,207,212
Increase in financial assets at fair value through profit or loss	(37,312)	(15,922)
Decrease (increase) in trade and other receivables	930,478	(1,798,638)
Increase in receivables under service concession arrangements	(2,038,046)	(935,547)
Net movement in amounts due to customers for contract work	(532,430)	(632,776)
Decrease in trade and other payables	(924,029)	(3,183,578)
(Decrease) increase in customer deposits from sales of properties	(905,698)	7,847,585
Decrease in provision for major overhauls	(3,021)	(4,234)
Cash generated from operations	7,786,432	12,012,947
PRC Enterprise Income Tax ("EIT") paid	(2,170,224)	(1,273,015)
PRC Land Appreciation Tax ("LAT") paid	(1,889,274)	(686,818)
Hong Kong Profits Tax paid	(160,347)	(268,583)
NET CASH FROM OPERATING ACTIVITIES	3,566,587	9,784,531

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Acquisition of associates		(1,238,198)	(113,630)
Purchase of property, plant and equipment		(871,593)	(596,046)
(Decrease) increase in restricted/pledged/short-term bank deposits		(542,759)	939,463
Purchase of investments		(414,677)	(1,042,784)
Repayment of consideration payables for acquisition of subsidiaries		(385,976)	–
Purchase of operating concessions		(281,538)	(65,810)
Acquisition of other subsidiaries	37(II) & (V)	(243,151)	(413,156)
(Decrease) increase in deposits paid on acquisition of property, plant and equipment		(231,753)	167,115
Subsequent expenditures on investment properties		(180,179)	(418,525)
Deposit paid on acquisition of subsidiaries	24	(154,979)	–
Capital injection to joint ventures		(397)	(175,234)
Interest received		755,416	698,116
Proceeds of disposal of interest in a subsidiary	38(II)	339,290	–
Dividends received from associates		324,874	76,831
Proceeds from disposal of investments		201,109	1,252,638
Acquisition of Quanzhou Shenshi Investment	37(I)	158,467	–
Dividends received from joint ventures		108,601	8,479
Proceeds from disposal of property, plant and equipment		79,919	50,169
Disposal of operating concession		58,112	9,854
Proceeds from disposal of interests in associates		45,381	11,228
Dividends received from equity investments		6,703	9,057
Advance to an independent third party	25	–	(22,679)
Settlement of consideration payables for acquisition of subsidiaries		–	(2,595,516)
Acquisition of Shanghai Qiyao	37(IV)	–	(2,338,081)
Acquisition of Longjiang Environmental Protection	37(III)	–	(415,204)
Acquisition of a joint venture		–	(113)
Disposal of assets through disposal of interest in a subsidiary	38(I) & (II)	–	2,118,926
Repayment from an independent third party	25	–	151,869
Proceeds from disposal of an investment property	14	–	35,061
NET CASH USED IN INVESTING ACTIVITIES		(2,467,328)	(2,667,972)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		(14,580,235)	(20,407,190)
Interest paid		(2,353,514)	(1,949,227)
Dividends paid		(1,000,234)	(988,453)
Dividends paid to non-controlling interests		(550,857)	(161,955)
Acquisition of additional interests in subsidiaries		(297,336)	(1,102,156)
Dividends declared by Yield Express and payable to SIIC		(73,675)	(53,046)
Acquisition of additional interests in a listed subsidiary		(27,867)	(162,159)
Repurchase of shares by a listed subsidiary		(481)	–
Acquisition of a subsidiary from SIIC		(287)	–
Bank and other borrowings raised		16,660,557	21,968,047
Advances from a related party		117,993	39,541
Capital contributions by non-controlling interests		47,985	225,894
Proceeds from issue of shares upon exercise of share options		15,297	16,237
Capital contribution from a non-controlling shareholder of a subsidiary upon capitalisation of its advance to the Group		2,076	–
Advances from fellow subsidiaries		182	44,995
Redemption of convertible bonds	34	–	(3,541,408)
Repurchase of convertible bonds	34	–	(109,080)
Proceeds from shares placements by a listed subsidiary, net of direct transaction costs		–	4,414,804
NET CASH USED IN FINANCING ACTIVITIES		(2,040,396)	(1,765,156)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(941,137)	5,351,403
CASH AND CASH EQUIVALENTS AT 1 JANUARY		31,312,457	26,810,766
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,266,548	(849,712)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		31,637,868	31,312,457

The notes on pages 79 to 179 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

The Company is an investment holding company. The principal activities of its principal subsidiaries, joint ventures and associates are set out in Notes 47, 48 and 49, respectively.

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

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

Amendments to HKFRSs that are mandatorily effective for current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of Annual Improvements to HKFRSs 2014-2016 Cycle

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

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 53. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosures in Note 53, the application of these amendments has had no impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Amendments to HKAS 7 Disclosure Initiative (Continued)

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendements[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[+]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

HKFRS 9 "Financial Instruments"

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

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

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 "Financial Instruments" (Continued)

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 22: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group elected the options for designation according to the different objectives for each business model which the available-for-sale investments are held. For those available-for-sale investments under which the Group elected the options for designation as measured at FVTOCI, the relevant fair value gains or losses accumulated in the investment revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income; for those securities qualified for designation as measured at FVTOCI under HKFRS 9 which the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, investment revaluation reserve related to these available-for-sale investments will be transferred to retained profits at 1 January 2018;

- Unlisted equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 22: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group elected the options for designation according to the different objectives for each business model which the available-for-sale investments are held. For those available-for-sale investments under which the Group elected the options for designation as measured at FVTOCI, the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the fair value gain relating to these securities would be adjusted to investment revaluation reserve as at 1 January 2018. For those securities qualified for designation as measured at FVTOCI under HKFRS 9, but the Group plans not to elect the option for designating these securities to be measured at FVTOCI, the Group will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, fair value gains related to these securities would be adjusted to retained profits as at 1 January 2018; and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables and receivables under service concession arrangements. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

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

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

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

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

HKFRS 16 "Leases" (Continued)

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 and continues to classify leases as an operating lease or a finance lease.

Furthermore, extensive disclosure are required by HKFRS 16.

As at 31 December 2017, the Group had non-cancellable operating lease commitments of HK$498,520,000 as disclosed in Note 39(I). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16 the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments of refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments of refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Amendments to HKAS 40 "Transfers of Investment Property"

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer as disclosed in Note 14 only upon commencement of an operating lease.

The directors of the Company anticipate that the application of these amendments will result in early recognition of such transfers on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits", respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for business combination involving entities under common control

Business combination involving entities under common control relates to acquisitions of subsidiaries/businesses controlled by SIIC.

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

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

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

Investments in subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. changes in net assets of the associate/joint ventures other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

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

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

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

Service concession arrangements

Consideration given by the grantor

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

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

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

Operating services

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts

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

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

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

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

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

Property, plant and equipment

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

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

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

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

Buildings under development for future owner-occupied purpose

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets. Other than investment properties measured under fair value model, such cost are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

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

Leasehold land and building

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

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

Government grants

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

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

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

Retirement benefits costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

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

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

For the purposes of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

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

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Toll road operating rights

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

Operating concessions

Operating concessions represent the rights to operate sewage treatment, water supply and waste incineration plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 7 to 50 years.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment loss (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

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

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belong. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Properties under development held for sale and properties held for sale

Properties under development held for sale and properties held for sale are stated at the lower of cost and net realisable value on an individual basis. Cost comprises the acquisition cost and other direct costs attributable to such properties. Costs of these properties are determined on the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Others

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories (Continued)

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

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

Financial instruments

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in net investment income line item. Fair value is determined in the manner described in Note 52(c).

Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

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

Equity and debt securities held by the Group that are classified as available-for-sale financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of available-for-sale debt instruments relating to interest income calculated using the effective interest method and changes in foreign exchange rates, if applicable are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment of financial assets below).

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

Impairment of financial assets

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Financial liabilities and equity instruments

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

Financial liabilities

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

Effective interest method

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

Equity instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible bonds containing liability and equity components

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

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

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

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

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Financial guarantee contracts

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

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

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

Contingent liabilities acquired in a business combination

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

Equity-settled share-based payment transactions

Share options granted to employees

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

For grant of share options that are conditional upon satisfying specified vesting conditions, the fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on assessment of all relevant non-marketing vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to employees (Continued)

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

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

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

Share-based payment transactions of the acquiree in a business combination

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

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

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For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgments in applying accounting policies (Continued)

Control over SIIC Environment

Note 47 describes that SIIC Environment Holdings Ltd. ("SIIC Environment") is a listed subsidiary of the Group although the Group has only 46.30% (2016: 37.57%) ownership interest and voting rights in SIIC Environment as at 31 December 2017. SIIC Environment is listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST").

The directors of the Company assessed whether or not the Group has control over SIIC Environment throughout the whole year ended 31 December 2017, based on whether the Group has the practical ability to direct the relevant activities of SIIC Environment unilaterally by considering the Group's absolute size of holding in SIIC Environment, the relative size and dispersion of holdings of other shareholders and the practical right to appoint the majority members of the board of directors of SIIC Environment. After their assessment, the directors of the Company concluded that the Group has the current ability to direct the relevant activities of SIIC Environment and affect the amount of the Group's return. Therefore, the Group has control over SIIC Environment throughout the whole year ended 31 December 2017.

Deferred taxation on investment properties

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

Key sources of estimation uncertainty

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

Fair values of investment properties

Investment properties are carried in the consolidated statement of financial position at 31 December 2017 are carried at their fair values of approximately HK$22,616 million (2016: HK$18,619 million), details of which are disclosed in Note 14. The fair values of the investment properties are determined by reference to valuations conducted on these properties by an independent firm of property valuer using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavorable changes to these assumptions may result in changes in the fair values of the Group's investment properties and corresponding adjustments to the changes in fair values reported in the consolidated statement of profit or loss and the carrying amounts of these properties included in the consolidated statement of financial position.

Amortisation of toll road operating rights

Toll road operating rights amounting to approximately HK$9,718 million as at 31 December 2017 (2016: HK$9,813 million) are amortised on a unit-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the operating period of the toll roads. If the actual traffic volume differs from the original projection, such difference will impact the amount of amortisation for the remaining operating period of the toll roads. There were no significant changes in the traffic volume estimates in the current year.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired required an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use and fair value less costs of disposal. The value in use calculation required the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss/future impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill was approximately HK$848 million (2016: HK$809 million). Details of the impairment test are set out in Note 18.

Allowance for properties under development and properties held for sale

Management regularly reviews the recoverability of the Group's properties under development and properties held for sale with reference to the current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceed their recoverable amounts. Appropriate allowance for properties under development and properties held for sale is made if the estimated recoverable amount is lower than its carrying amount. As at 31 December 2017, the aggregate carrying amount of properties under development and properties held for sale was approximately HK$49,998 million (2016: HK$43,840 million).

Recognition and allocation of construction costs on properties under development

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

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

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

PRC LAT

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

The Group is subject to LAT in the PRC which has been included in income tax expense of the Group. However, the Group has not finalised its LAT returns with the tax authorities for certain of its property development projects. Accordingly, significant judgment is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and deferred income tax provisions in the period in which such determination is made. As at 31 December 2017, the carrying amount of LAT provision (included in taxation payable) was approximately HK$2,115 million (2016: HK$2,024 million).

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For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Estimated impairment of trade and other receivables

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the aggregate carrying amount of trade and other receivables was approximately HK$10,824 million (2016: HK$9,243 million).

Estimation of contract revenue and costs

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

Fair value measurements and valuation processes

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

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model on a regular basis, or when needs arise, and will report the significant results and findings to the board of directors of the Company. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 14 and 52(c) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair values of various assets and liabilities.

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For the year ended 31 December 2017

5. REVENUE

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

	2017 **HK$'000**	2016 HK$'000
Sales of properties	14,788,692	10,440,410
Sales of goods	4,186,370	4,079,319
Income from infrastructure facilities	7,725,036	5,274,746
Property services, rental and management income	2,611,085	2,153,213
Income from hotel operation	193,104	184,070
	29,504,287	22,131,758

6. NET INVESTMENT INCOME

	2017 **HK$'000**	2016 HK$'000
Interest on bank deposits	500,106	373,568
Interest on available-for-sale investments	38,847	41,463
Interest on financial assets designated as at FVTPL	2,456	2,177
Other interest income	214,007	280,908
Total interest income	755,416	698,116
Change in fair value of financial assets classified as held for trading	72,614	5,707
Change in fair value of financial assets designated as at FVTPL	(1,695)	1,229
Dividend income from equity investments	6,703	9,057
Gain on disposal of available-for-sale investments	14,881	15,374
Rental income from property, plant and equipment	2,299	1,925
	850,218	731,408

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

	2017 **HK$'000**	2016 HK$'000
Financial assets at FVTPL	79,173	14,972
Loans and receivables (including bank balances and cash)	714,113	654,476
Available-for-sale financial assets	54,633	60,035
	847,919	729,483
Investment income earned on non-financial assets	2,299	1,925
	850,218	731,408

Included above is income from listed investments of HK$79,226,000 (2016: HK$12,817,000) and from unlisted investments of HK$54,580,000 (2016: HK$62,190,000).

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7. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank and other borrowings	2,353,514	1,949,227
Interest on convertible bonds (Note 34)	727	1,578
	2,354,241	1,950,805
Less: amounts capitalised in properties under development held for sale	(572,912)	(523,823)
	1,781,329	1,426,982

Borrowing costs capitalised during the year arose on the general borrowings pool and are calculated by applying capitalisation rates ranging from 3.41% to 5.65% (2016: 3.91% to 6.15%), per annum to expenditure on qualifying assets.

8. GAIN ON DERECOGNITION/DISPOSAL OF INTERESTS IN ASSOCIATES/DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES

	2017 HK$'000	2016 HK$'000
Fair value gain on revaluation of previously held interest in an associate upon obtaining control and becoming a subsidiary (Note 37(I) and (III))	206,559	308,565
Gain on disposal of interests in associates	22,711	22,333
Gain on disposal of assets through disposal of interests in subsidiaries (Note 38(I))	–	2,395,035
	229,270	2,725,933

9. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax		
– Hong Kong	208,719	187,738
– PRC LAT	1,679,174	902,936
– PRC EIT (including PRC withholding tax of HK$32,502,000 (2016: HK$4,918,000))	1,817,909	1,872,731
	3,705,802	2,963,405
Under(over)provision in prior years		
– Hong Kong	1,173	539
– PRC LAT (note)	79,750	(6,234)
– PRC EIT (including overprovision of PRC withholding tax of Nil (2016: HK$13,970,000)) (note)	23,107	(24,055)
	104,030	(29,750)
Deferred taxation for the year (Note 26)	425,392	(274,285)
	4,235,224	2,659,370

9. INCOME TAX EXPENSE (Continued)

Note: The Group recognised an underprovision (2016: overprovision) of PRC LAT and PRC EIT during the year ended 31 December 2017, upon completion of tax clearance procedures by certain PRC subsidiaries with the respective tax authorities.

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

	2017 HK$'000	2016 HK$'000
Profit before taxation	9,392,861	7,499,270
Tax at PRC statutory tax rate of 25% (2016: 25%)	2,348,215	1,874,818
Tax effect of share of results of joint ventures and associates	(155,458)	(71,794)
Tax effect of expenses not deductible for tax purpose	225,195	185,304
Tax effect of income not taxable for tax purpose	(36,391)	(19,675)
Under(over)provision of Hong Kong Profits Tax and PRC EIT in prior years	24,280	(23,516)
Tax effect of tax losses not recognised as deferred tax assets	302,640	317,356
Utilisation of tax losses previously not recognised as deferred tax assets	(37,420)	(43,854)
Effect of PRC subsidiaries subject to a lower tax rate	(56,635)	(16,734)
Effect of different tax rates of subsidiaries	(63,960)	(301,468)
Provision for PRC LAT for the year	1,878,200	907,630
Under(over)provision of PRC LAT in prior years	79,750	(6,234)
Tax effect of PRC LAT deductible for PRC EIT	(489,488)	(225,349)
Tax charge on dividend withholding tax	188,878	57,625
Others	27,418	25,261
Income tax expense for the year	4,235,224	2,659,370

Notes:

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

(ii) The Group's subsidiaries in the PRC are subject to PRC EIT at a rate of 25% for both years, except that (i) three (2016: two) PRC subsidiaries are qualified as High New Technology Enterprises and enjoy a preferential tax rate of 15% for the current year. The preferential tax rate is applicable for three years until 2018 and 2019, respectively, and subject to approval for renewal and (ii) certain PRC subsidiaries, engaging in public infrastructure projects, are entitled to full exemption from PRC EIT for the first three years and a 50% reduction in PRC EIT for the next three years from the first year of generating operating income.

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

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For the year ended 31 December 2017

10. PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year has been arrived at after charging:		
Employee benefits expense, including directors' emoluments:		
Basic salaries, allowances and bonus	1,411,761	1,200,174
Retirement benefits scheme contributions	154,326	117,923
	1,566,087	1,318,097
Amortisation of toll road operating rights (included in cost of sales)	805,438	809,009
Amortisation of other intangible assets (included in cost of sales)	339,871	206,108
Depreciation of property, plant and equipment	385,544	365,693
Release of prepaid lease payments	7,517	7,484
Total depreciation and amortisation	1,538,370	1,388,294
Auditors' remuneration	17,817	18,712
Cost of inventories recognised as an expense		
– properties	10,449,017	9,071,196
– inventories other than properties	2,150,403	2,363,751
Impairment loss on bad and doubtful debts	34,710	55,156
Impairment loss on goodwill	–	38,235
Impairment loss on properties held for sale	280,519	224,631
Impairment loss on inventories, other than properties	12,601	4,475
Net foreign exchange loss (included in other income, gains and losses)	–	271,164
Net loss on disposal/written off of property, plant and equipment	5,394	762
Operating lease rentals in respect of land and buildings to		
– fellow subsidiaries	12,789	12,789
– others	167,767	119,595
Provision for major overhauls (included in cost of sales)	54	5,739
Research expenditure	7,884	1,829
Share of PRC EIT of joint ventures (included in share of results of joint ventures)	62,560	58,467
Share of PRC EIT of associates (included in share of results of associates)	1,109	13,876
and after crediting other income, gains and losses as follows:		
Gain on land resumption (note)	–	209,999
Gain from bargain purchase of interest in a subsidiary	8,097	–
Net increase in fair value of investment properties	65,207	305,450
Reversal of impairment loss on bad and doubtful debts	38,599	2,719
Reversal of impairment loss on other intangible assets	28,229	–
Reversal of impairment loss on other receivables	4,896	6,277
Net foreign exchange gain	50,169	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

The emoluments paid or payable to each of the nine (2016: eleven) former and existing directors of the Company were as follows:

	Executive directors						Independent non-executive directors					
	Wang Wei	Zhou Jun	Xu Bo	Xu Zhan	Lu Shen	Zhou Jie	Woo Chia-Wei	Leung Pak To, Francis	Cheng Hoi Chuen, Vincent	Yuen Tin Fan, Francis	Lo Ka Shui	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(note i)	(note ii)	(note ii)				(note iii)	(note iv)	
Year ended 31 December 2017												
Executive directors:												
Directors' fee and committee remuneration	–	564	–	513	–	–	–	–	–	–	–	1,077
Basic salaries and allowances	3,258	2,364	1,887	–	120	–	–	–	–	–	–	7,629
Bonuses	2,100	1,995	840	–	58	–	–	–	–	–	–	4,993
Retirement benefits scheme contributions	99	87	80	–	5	–	–	–	–	–	–	271
Independent non-executive directors:												
Directors' fees and committee remuneration	–	–	–	–	–	–	450	440	449	440	–	1,779
Total directors' emoluments	5,457	5,010	2,807	513	183	–	450	440	449	440	–	15,749
Year ended 31 December 2016												
Executive directors:												
Directors' fee and committee remuneration	–	–	–	309	–	–	–	–	–	–	–	309
Basic salaries and allowances	3,258	2,055	1,886	–	1,940	1,531	–	–	–	–	–	10,670
Bonuses	2,100	1,247	840	–	945	1,292	–	–	–	–	–	6,424
Retirement benefits scheme contributions	74	59	54	–	59	43	–	–	–	–	–	289
Independent non-executive directors:												
Directors' fees and committee remuneration	–	–	–	–	–	–	445	440	449	203	179	1,716
Total directors' emoluments	5,432	3,361	2,780	309	2,944	2,866	445	440	449	203	179	19,408

Notes:

(i) Mr. Xu Zhan was appointed as an executive director of the Company on 17 November 2016.
(ii) Mr. Lu Shen and Mr. Zhou Jie resigned as an executive director of the Company on 24 January 2017 and 25 August 2016, respectively.
(iii) Mr. Yuen Tin Fan, Francis was appointed as an independent non-executive director of the Company on 15 July 2016.
(iv) Mr. Lo Ka Shui resigned as an independent non-executive director of the Company on 30 June 2016.
(v) The executive directors of the Company are also the key management personnel of the Company. Their emoluments including those for services rendered by them as the key management personnel are also included in the above directors' emoluments tables for presentation.
(vi) The executive director's emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.
(vii) The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.
(viii) Bonuses were determined with reference to the Group's operating results, individual performance and comparable market statistics.
(ix) In the two years ended 31 December 2017, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors has waived any emoluments during both years.
(x) The five highest paid individuals of the Group for both years were all directors of the Company and details of their emoluments are set out above.

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12. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends recognised as distribution during the year:		
2017 interim dividend of HK46 cents		
(2016: 2016 interim dividend of HK36 cents) per share	500,117	391,163
2016 special dividend of HK10 cents (2017: Nil) per share	–	108,657
2016 final dividend of HK46 cents		
(2016: 2015 final dividend of HK45 cents) per share	500,117	488,633
	1,000,234	988,453

The final dividend of HK48 cents per share in respect of the year ended 31 December 2017, amounting to approximately HK$521.9 million in total, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

	2017 HK$'000	2016 HK$'000
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	3,150,472	2,903,030
Effect of dilutive potential ordinary shares		
– interest on convertible bonds, net of tax	607	1,318
Earnings for the purpose of diluted earnings per share	3,151,079	2,904,348

	2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,086,991,283	1,086,074,031
Effect of dilutive potential ordinary shares		
– convertible bonds	880,573	14,632,298
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,087,871,856	1,100,706,329

The computation of diluted earnings per share does not assume:

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

(ii) the exercise of options issued by Shanghai Industrial Urban Development Group Limited ("SI Urban Development"), a listed subsidiary of the Group, because the exercise price of those options was higher than the average market price for the corresponding period.

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14. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2016	15,362,596
Exchange adjustments	(1,136,049)
Subsequent expenditures	418,525
Transfer from inventories (note iii)	1,555,614
Additions through acquisition of a subsidiary (Note 37(IV))	2,165,185
Increase in fair value recognised in profit or loss	305,450
Disposal (note v)	(52,043)
At 31 December 2016	18,619,278
Exchange adjustments	1,480,172
Subsequent expenditures	180,179
Transfer from inventories (note iii)	2,270,820
Net increase in fair value recognised in profit or loss	65,207
At 31 December 2017	22,615,656

Notes:

		2017 HK$'000	2016 HK$'000
(i)	Unrealised gain on property revaluation included in profit or loss for the year (included in other income, gains and losses)	65,207	308,686

(ii) The Group's investment properties are situated on land held under:

	2017 HK$'000	2016 HK$'000
Land use rights in the PRC	22,615,656	18,619,278

(iii) During the year ended 31 December 2017, properties held for sale included in inventories with a carrying amount of HK$2,270,820,000 (2016: HK$1,555,614,000) were transferred to investment properties as the management had changed the use of the properties, evidenced by commencement of various operating leases entered into with tenants. The properties were fair-valued by Cushman & Wakefield Limited (formerly known as DTZ Cushman & Wakefield Limited) ("C&W") at the date of transfer by reference to net rental income allowing for reversionary income potential.

(iv) The property rental income earned by the Group from its investment properties which are either held for rental income under operating leases and/or for capital appreciation purpose, amounted to HK$993,760,000 (2016: HK$937,449,000) with insignificant direct operating expenses.

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

(vi) The fair values of the Group's investment properties as at 31 December 2017 and 2016 have been arrived at on the basis of valuations carried out on the respective dates by C&W. C&W is a member of the Institute of Valuers and a firm of independent qualified professional valuer not connected to the Group. C&W possesses appropriate qualifications and experience in the valuation of properties in the relevant locations. All of the Group's investment properties were valued by C&W with reference to market evidence of transaction prices for similar properties in similar locations and conditions or on the basis of investment approach, where appropriate. In arriving at the valuation on the basis of investment approach, the fair value is determined by capitalising the net rental income derived from the existing tenancies with due provision or allowance for the reversionary potential of the properties.

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

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14. INVESTMENT PROPERTIES (Continued)

Notes: (Continued)

(viii) Following are the key inputs used in valuing the investment properties as at 31 December 2017 and 2016:

Category	Fair value hierarchy	Fair value 2017 HK$'000	Fair value 2016 HK$'000	Valuation techniques	Significant unobservable inputs	Range or weighted average 2017	Range or weighted average 2016	Sensitivity
Office properties	Level 3	6,077,122	5,293,554	Investment approach	Reversionary rate derived from market rent and the transaction price of comparable properties in the same location.	4.75%-5.75%	4.0%-11%	The higher the reversionary yield, the lower the fair value.
Car parking spaces	Level 3	181,381	167,485	Investment approach	Reversionary rate derived from market rent and the transaction price of comparable properties in the same location.	5.5%	5.5%	The higher the reversionary yield, the lower the fair value.
		57,289	53,253	Direct comparison approach	Adjustment to transaction price (to reflect location, age and maintenance).	2.8%-17.3%	3.0%-14.0%	The larger the adjustment, the higher the fair value.
Residential service apartments	Level 3	36,517	33,944	2017: Investment approach	Reversionary rate derived from market rent and transaction price of comparable properties in the same location	3.5%	N/A	The higher the reversionary yield, the lower the fair value.
				2016: Direct comparison approach	Discounts made to direct market comparables in the same location to reflect property market trend and property conditions	N/A	26%	The higher the discount rate, the lower the fair value.
Industrial properties	Level 3	148,878	138,389	Investment approach	Reversionary rate derived from existing contracts rent and monthly market rent.	5.75%	8.0%	The higher the reversionary yield, the lower the fair value.
Commercial properties	Level 3	13,792,547	10,831,268	Investment approach	Reversionary rate derived from market rent and the transaction price of comparable properties in the same location.	3.75%-4.75%	3.75%-5.5%	The higher the reversionary yield, the lower the fair value.
Residential Villa	Level 3	2,321,922	2,101,385	2017: Investment approach	Reversionary rate derived from market rent and transaction price of comparable properties in the same location	1.5%	N/A	The higher the reversionary yield, the lower the fair value.
				2016: Direct comparison approach	Discounts made to direct market comparables in the same location to reflect property market trend and property conditions	N/A	5.0%-7.0%	The higher the discount rate, the lower the fair value.
		22,615,656	18,619,278					

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

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15. PROPERTY, PLANT AND EQUIPMENT

	Hotel property HK$'000	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2016	1,208,572	2,175,847	873,586	174,987	2,270,833	171,477	6,875,302
Exchange adjustments	(90,200)	(133,402)	(27,302)	(11,924)	(36,709)	(9,178)	(308,715)
Acquisition of Longjiang Environmental Protection (Note 37(III))	–	21,270	13,052	7,736	6,284	29,683	78,025
Acquisition of Shanghai Qiyao (Note 37(IV))	–	–	6	854	–	–	860
Acquisition of other subsidiaries (Note 37(V))	–	2,928	5,864	3,552	755	863	13,962
Additions	9	25,369	106,110	25,058	322,780	116,720	596,046
Transfers/reclassification (note iii)	–	81,859	58	–	23,836	(73,581)	32,172
Disposals/written off	(29,947)	(6,586)	(14,838)	(21,704)	(48,328)	–	(121,403)
Disposal of subsidiaries (Note 38(II))	–	–	(2,555)	(2,860)	–	–	(5,415)
At 31 December 2016 and 1 January 2017	1,088,434	2,167,285	953,981	175,699	2,539,451	235,984	7,160,834
Exchange adjustments	125,550	97,493	34,922	14,308	45,100	17,596	334,969
Acquisition of Quanzhou Shangshi Investment (Note 37(I))	–	–	279	578	24	–	881
Additions	108	68,653	53,208	12,252	48,772	688,600	871,593
Reclassification	463,566	313	48,694	–	71,083	(583,656)	–
Disposals/written off	(474)	(25,622)	(17,044)	(12,060)	(27,536)	(51,503)	(134,239)
At 31 December 2017	1,677,184	2,308,122	1,074,040	190,777	2,676,894	307,021	8,234,038
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 January 2016	228,149	490,140	446,725	103,600	1,294,591	–	2,563,205
Exchange adjustments	(22,221)	(22,561)	(17,712)	(4,995)	(14,358)	–	(81,847)
Provided for the year	62,807	75,263	83,774	21,170	122,679	–	365,693
Eliminated on disposals/written off	(626)	(4,996)	(10,780)	(15,364)	(38,706)	–	(70,472)
Eliminated on disposal of subsidiaries (Note 38(II))	–	–	(2,359)	(2,301)	–	–	(4,660)
At 31 December 2016 and 1 January 2017	268,109	537,846	499,648	102,110	1,364,206	–	2,771,919
Exchange adjustments	28,776	28,032	16,692	9,992	15,603	–	99,095
Provided for the year	73,108	82,034	63,746	21,098	145,558	–	385,544
Eliminated on disposals/written off	(290)	(1,381)	(15,436)	(9,639)	(22,180)	–	(48,926)
At 31 December 2017	369,703	646,531	564,650	123,561	1,503,187	–	3,207,632
CARRYING VALUES							
At 31 December 2017	1,307,481	1,661,591	509,390	67,216	1,173,707	307,021	5,026,406
At 31 December 2016	820,325	1,629,439	454,333	73,589	1,175,245	235,984	4,388,915

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For the year ended 31 December 2017

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

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

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

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

	2017 HK$'000	2016 HK$'000
Land use rights in the PRC	2,318,032	1,775,849
Leases in Hong Kong	651,040	673,915
	2,969,072	2,449,764

(iii) During the year ended 31 December 2016, the Group transferred properties held for sale of HK$32,172,000 (2017: Nil) from inventories to property, plant and equipment under leasehold land and building category upon the change of use of the property from sale to owner occupied purpose.

16. PREPAID LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
The Group's prepaid lease payments comprise land use rights in the PRC	259,866	248,428
Analysed for reporting purposes as:		
Current portion	5,707	5,293
Non-current portion	254,159	243,135
	259,866	248,428

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17. TOLL ROAD OPERATING RIGHTS

	HK$'000
COST	
At 1 January 2016	15,870,813
Exchange adjustments	(1,031,384)
At 31 December 2016	14,839,429
Exchange adjustments	1,124,766
At 31 December 2017	15,964,195
AMORTISATION	
At 1 January 2016	4,550,914
Exchange adjustments	(333,428)
Charged for the year	809,009
At 31 December 2016	5,026,495
Exchange adjustments	413,857
Charged for the year	805,438
At 31 December 2017	6,245,790
CARRYING VALUES	
At 31 December 2017	9,718,405
At 31 December 2016	9,812,934

Notes:

(i) The toll road operating rights represent:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. GOODWILL

	HK$'000
COST	
At 1 January 2016	572,855
Exchange adjustments	(50,471)
Arising on acquisition of Longchuang (Note 37(V))	261,367
Arising on acquisition of Rypax (Note 37(V))	63,831
At 31 December 2016	847,582
Exchange adjustments	38,665
At 31 December 2017	886,247
IMPAIRMENT	
At 1 January 2016	–
Impairment loss recognised	38,235
At 31 December 2016	38,235
Impairment loss recognised	–
At 31 December 2017	38,235
CARRYING VALUES	
At 31 December 2017	848,012
At 31 December 2016	809,347

For the purposes of impairment testing, goodwill arising on business combinations as set out above was allocated, at acquisition, to three (2016: three) cash-generating units ("CGUs"), comprising one (2016: one) subsidiary in the infrastructure facilities segment, one (2016: one) subsidiary in the real estate segment and two (2016: two) subsidiaries in the consumer products segment, that are expected to benefit from that business combination as follows:

	2017 HK$'000	2016 HK$'000
Infrastructure facilities	525,803	499,878
Real estate	258,378	245,638
Consumer products	63,831	63,831
	848,012	809,347

During the year ended 31 December 2016, the management of the Group determined that an impairment loss of HK$38,235,000 should be recognised in relation to goodwill in the consumer products segment. No impairment loss is recognised during the year ended 31 December 2017.

18. GOODWILL (Continued)

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

For infrastructure facilities segment, the value in use is determined by discounting the future cash flows to be generated from the continuing use of wastewater treatment plant and waste incineration power generation plant over the service concession period ranging from 20 to 25 (2016: 20 to 25) years, using a discount rate of 9% (2016: 9%).

For real estate segment, the value in use calculation uses cash flow projections based on financial budget approved by management covering a 5-year period with 11.5% (2016: 11.5%) discount rate. The cash flows beyond the 5-year period are extrapolated at zero growth rate. This growth rate is based on the global economic growth rate and is the directors' best estimate on the average growth rate of this specific industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

For consumer products segment, the value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period using a discount rate of 10% (2016: 10%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate of 3% (2016: 3%). This growth rate is based on the global economic growth rate and is the directors' best estimate on the average growth rate of this specific industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

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

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19. OTHER INTANGIBLE ASSETS

	Operating concessions HK$'000 (note i)	Premium on prepaid lease payments HK$'000 (note ii)	Trademark HK$'000 (note iii)	Total HK$'000
COST				
At 1 January 2016	4,144,553	1,662	60,903	4,207,118
Exchange adjustments	(314,091)	(108)	(3,958)	(318,157)
Acquisition of Longjiang Environmental Protection (Note 37(III))	2,840,832	–	–	2,840,832
Acquisition of other subsidiaries (Note 37(V))	1,006,974	–	–	1,006,974
Additions	65,810	–	–	65,810
Disposal/written off	(11,630)	–	–	(11,630)
At 31 December 2016	7,732,448	1,554	56,945	7,790,947
Exchange adjustments	603,628	118	4,316	608,062
Acquisition of other subsidiaries (Note 37(II))	98,894	–	–	98,894
Additions	281,538	–	–	281,538
Disposal/written off	(59,079)	–	–	(59,079)
At 31 December 2017	8,657,429	1,672	61,261	8,720,362
AMORTISATION AND IMPAIRMENT				
At 1 January 2016	288,256	172	–	288,428
Exchange adjustments	(27,531)	(15)	–	(27,546)
Charged for the year	206,024	84	–	206,108
Elimination on disposal/written off	(1,776)	–	–	(1,776)
At 31 December 2016	464,973	241	–	465,214
Exchange adjustments	48,222	22	–	48,244
Charged for the year	339,788	83	–	339,871
Reversal of impairment loss	(28,229)	–	–	(28,229)
At 31 December 2017	824,754	346	–	825,100
CARRYING VALUES				
At 31 December 2017	7,832,675	1,326	61,261	7,895,262
At 31 December 2016	7,267,475	1,313	56,945	7,325,733

19. OTHER INTANGIBLE ASSETS (Continued)

Notes:

(i) Operating concessions represent the rights to operate sewage treatment, water supply and waste incineration plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on straight-line basis over the respective periods of the operating concessions granted to the Group of 7 to 50 years. Details of these operating concessions are set out in Note 23.

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

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

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

For the purpose of impairment testing, trademark with indefinite useful life set out above has been allocated to the individual CGU, comprising one subsidiary in the real estate segment. For the year ended 31 December 2017, management of the Group has determined that there is no impairment (2016: Nil) of the CGU containing trademark by reference to the recoverable amount of the CGU, which has been determined based on a value in use calculation.

20. INTERESTS IN JOINT VENTURES

	2017 **HK$'000**	2016 HK$'000
Cost of unlisted investments in joint ventures	2,537,152	2,536,755
Share of post-acquisition profits and other comprehensive income, net of dividends received/declared	1,324,247	930,842
	3,861,399	3,467,597

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20. INTERESTS IN JOINT VENTURES (Continued)

Notes:

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

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

	Shanghai Galaxy		General Water	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Current assets	2,014,845	1,901,074	3,064,053	2,124,514
Non-current assets*	6,894,222	6,472,407	6,303,655	6,696,399
Current liabilities	(1,818,786)	(1,968,419)	(2,521,844)	(2,569,142)
Non-current liabilities	(4,486,959)	(4,165,096)	(1,742,848)	(1,586,547)
Non-controlling interests	(187,675)	(159,856)	(1,258,928)	(1,166,868)
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	392,493	503,546	1,823,909	1,723,875
Current financial liabilities (excluding trade and other payables and provisions)	(990,981)	(1,193,837)	(717,358)	(876,507)
Non-current financial liabilities (excluding trade and other payables and provisions)	(3,987,159)	(3,712,841)	(1,414,793)	(1,442,503)

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

	Shanghai Galaxy		General Water	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Revenue	840,197	555,707	2,207,875	2,154,942
Profit for the year	193,412	123,106	172,278	182,482
Other comprehensive income (expense) for the year	142,126	(134,168)	292,700	(241,342)
Total comprehensive income (expense) for the year	335,538	(11,062)	464,978	(58,860)
Dividends received from joint ventures during the year	–	–	(53,661)	(8,479)
The above profit for the year include the following:				
Depreciation and amortisation	(228,863)	(229,729)	(318,308)	(326,053)
Interest income	2,341	3,050	21,409	21,191
Interest expense	(263,549)	(185,803)	(101,376)	(116,507)
Income tax expense	(34,582)	(24)	(137,595)	(129,627)

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20. INTERESTS IN JOINT VENTURES (Continued)

Notes: (Continued)

(i) (Continued)

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

	Shanghai Galaxy		General Water	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Equity attributable to owners of the joint venture	2,415,647	2,080,110	3,844,088	3,498,356
Proportion of the Group's ownership interest	50%	50%	45%	45%
Carrying amount of the Group's interest in the joint venture	1,207,824	1,040,055	1,729,839	1,574,260

Aggregate information of joint ventures that are not individually material:

	2017 HK$'000	2016 HK$'000
The Group's share of profit	57,551	70,447
The Group's share of other comprehensive income (expense)	67,446	(72,526)
The Group's share of total comprehensive income (expense)	124,997	(2,049)
Dividends received during the year	(54,940)	–
Aggregate carrying amount of the Group's interests in these joint ventures	923,736	853,282

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

	2017 HK$'000	2016 HK$'000
Unrecognised share of profit of a joint venture for the year	73	125
Accumulated unrecognised share of losses of a joint venture	(5,279)	(5,352)

(iii) Details of the Group's principal joint ventures at the end of the reporting period are set out in Note 48.

21. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Cost of investments in associates	5,074,583	3,797,226
Share of post-acquisition profits (losses) and other comprehensive income (expense), net of dividends received/declared	1,922	(417,562)
	5,076,505	3,379,664
Less: Impairment loss recognised	–	(969)
	5,076,505	3,378,695
Fair value of listed investment in an associate – Canvest Environmental (as defined in note (ii))	1,643,894	–

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21. INTERESTS IN ASSOCIATES

Notes:

(i) Included in the cost of investments is goodwill of HK$782,023,000 (2016: HK$3,370,000) arising on acquisitions.

(ii) During the year ended 31 December 2017, the Company through one of its indirect wholly-owned subsidiary, subscribed 300,000,000 new shares of Canvest Environmental Protection Group Company Limited ("Canvest Environmental"), a company listed on the Stock Exchange, a former 2.30% owned available-for-sale investment, at a price of HK$3.5 per share, amounting to approximately HK$1,050 million. Upon the completion of the subscription, the Group holds 14.52% equity interest and is able to exercise significant influence over Canvest Environmental as the Group is the second largest shareholder and has appointed a director to the board of Canvest Environmental, and Canvest Environmental is accounted for as an associate using the equity method accordingly. Canvest Environmental is engaged in the provision of municipal solid waste handling services and operation and management of waste-to-energy plants in the PRC.

In addition, the Company, through its another indirect wholly owned subsidiary, acquired 11.27% additional equity interest in 浙江五芳齋實業股份有限公司 (Zhejiang Wufangzhai Industrial Co., Ltd.) ("Wufangzhai"), a former 12.70% owned available-for-sale investment, from Shanghai Galaxy Investment Co., Ltd, a joint venture of the Group and a wholly owned subsidiary of SIIC, at a consideration of RMB162,765,000 (equivalent to HK$184,082,000). Upon completion of the acquisition, Wufangzhai is accounted for as an associate and owned by the Group as to 23.97%. Wufangzhai is principally engaged in the production and sale of glutinous rice dumplings, chain food services and the rice industry in the PRC.

(iii) Summarised financial information in respect of the Group's material associates namely 上海華天置業有限公司 ("Shanghai Shentian"), 寧波市杭州灣大橋發展有限公司("Hangzhou Bay Bridge") and Canvest Environmental is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

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

	Shanghai Shentian		Hangzhou Bay Bridge		Canvest Environmental	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Current assets*	4,685,722	4,086,877	256,683	180,177	1,971,574	N/A
Non-current assets**	2,357	1,711	12,953,912	12,648,064	7,287,363	N/A
Current liabilities	(146,938)	(409,491)	(2,173,923)	(1,995,923)	(1,035,682)	N/A
Non-current liabilities	(1,117,718)	(496,874)	(3,284,738)	(3,763,224)	(3,332,949)	N/A
Non-controlling interests	–	–	–	–	–	N/A

* The balances of Shanghai Shentian mainly comprise land costs relating to properties under development held for sale. The development plan was approved by the respective government departments in the PRC and the construction commenced in year 2014 and is expected to complete from the year 2019 onwards.

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

	Shanghai Shentian		Hangzhou Bay Bridge		Canvest Environmental	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Revenue	–	–	1,818,838	1,610,809	2,397,531	N/A
Profit for the year	–	–	518,358	350,549	564,247	N/A
Other comprehensive income (expense) for the year	241,200	(221,169)	539,504	(489,019)	240,508	N/A
Total comprehensive income (expense) for the year	241,200	(221,169)	1,057,862	(138,470)	804,755	N/A
Dividends received from the associate during the year	–	–	(86,474)	(65,924)	(8,700)	N/A

21. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(iii) (Continued)

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

	Shanghai Shentian		Hangzhou Bay Bridge		Canvest Environmental	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000 (note)**	2016 HK$'000
Equity attributable to owners of the associate	3,423,423	3,182,223	7,751,934	7,069,094	4,890,306	N/A
Proportion of the Group's ownership interest	35%	35%	23.06%	23.06%	14.52%	N/A
Goodwill	–	–	–	–	578,813	N/A
Carrying amount of the Group's interest in the associate	1,198,198	1,113,778	1,787,472	1,630,020	1,288,885	N/A

Note: The Group is able to exercise significant influence over Canvest Environmental as the Group is the second largest shareholder and has appointed a director to the board of Canvest Environmental. Canvest Environmental is accounted for as an associate using the equity method accordingly.

Aggregate information of associates that are not individually material:

	2017 HK$'000	2016 **HK$'000**
The Group's share of profit (loss)	221,013	(33,370)
The Group's share of other comprehensive income (expense)	145,458	(42,847)
The Group's share of total comprehensive income (expense)	366,471	(76,217)
Dividends received during the year	(229,700)	(10,907)
Aggregate carrying amount of the Group's interests in the associates	801,950	634,897

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

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22. INVESTMENTS

	2017 HK$'000	2016 HK$'000
Available-for-sale investments		
Listed equity securities in		
– Hong Kong	30,667	232,046
– elsewhere	155,319	178,254
Unlisted equity securities in		
– Hong Kong (note ii)	5	5
– PRC (note ii)	579,938	728,985
– elsewhere (note ii)	30,794	30,794
Unlisted trust funds (notes ii and iii)	–	31,264
	796,723	1,201,348
Investments held-for-trading		
Listed equity securities in		
– Hong Kong	256,073	173,513
– elsewhere	9,379	12,059
	265,452	185,572
Financial assets designated as at FVTPL		
– Structured deposits	15,218	–
– Corporate bonds	125,077	10,131
– Funds	77,298	–
	217,593	10,131
	1,279,768	1,397,051
Fair values of listed equity investments	451,438	595,872
Analysed for reporting purposes as:		
Current portion	483,045	226,967
Non-current portion	796,723	1,170,084
	1,279,768	1,397,051

Notes:

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

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

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

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23. SERVICE CONCESSION ARRANGEMENTS

In addition to the Group's toll road operating rights as disclosed in Note 17, the Group also has the following service concession arrangements.

(I) Nature of arrangements

The Group engages in the businesses of sewage treatment, water supply, waste incineration and sludge treatment in the PRC and has entered into a number of service concession arrangements with certain governmental authorities or their agencies in the PRC on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its businesses. These service concession arrangements generally involve the Group as an operator to (i) construct sewage treatment, water supply, waste incineration and sludge treatment plants for those arrangements on a BOT basis; (ii) pay a specific amount for those arrangements on a TOT basis; (iii) operate and maintain the sewage treatment, water supply, waste incineration and sludge treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 33 years (the "service concession periods"), and the Group will be paid by the users for its services over the relevant periods of the service concession arrangements at prices stipulated through pricing mechanism.

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

At 31 December 2017, the Group had 105 (2016: 84) service concession arrangements on sewage treatment, seven (2016: seven) service concession arrangements on water treatment and distribution, two (2016: two) service concession arrangements on waste incineration and nine (2016: eight) service concession arrangements on sludge treatment. a summary of the major terms of the principal service concession arrangements is set out below:

Name of subsidiary as operator	Project name	Location in the PRC	Name of grantor	Type of service concession arrangement	Practical processing capacity	Service concession period
哈爾濱文太升龍江環保水務有限責任公司	Sewage treatment project in Wenchang, Harbin	Harbin, Heilongjiang Province	哈爾濱市水務局	BOT (Financial assets)	650,000	29 years from 2012 to 2040
牡丹江龍江環保供水有限公司	Water supply project in Mudanjiang	Mudanjiang, Heilongjiang Province	牡丹江市人民政府	TOT (Intangible assets)	360,000	30 years from 2011 to 2040
佳木斯龍江環保供水有限公司	Water supply project in Jiamusi	Jiamusi, Heilongjiang Province	佳木斯市人民政府	TOT (Intangible assets)	360,000	30 years from 2012 to 2041
龍江環保集團股份有限公司	Sewage treatment project in Taipin, Harbin	Harbin, Heilongjiang Province	哈爾濱市水務局	BOT (Financial assets)	325,000	25 years from 2005 to 2029
龍江環保集團股份有限公司	Sewage treatment project in Wenchang, Harbin	Harbin, Heilongjiang Province	哈爾濱市水務局	TOT (Financial assets)	325,000	30 years from 2011 to 2040
益陽市自來水有限公司	Water supply project in Yiyang	Yiyang, Hunan Province	益陽市住房和城鄉建設局	BOT (Intangible assets)	320,000	28 years from 2016 to 2044

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23. SERVICE CONCESSION ARRANGEMENTS (Continued)

(I) Nature of arrangements (Continued)

Name of subsidiary as operator	Project name	Location in the PRC	Name of grantor	Type of service concession arrangement	Practical processing capacity	Service concession period
濰坊市自來水有限公司	Water supply project in Weifang	Weifang, Shandong Province	濰坊市人民政府	BOT (Intangible assets)	320,000	25 years from 2007 to 2032
惠州市南方水務有限公司	Phase I, phase II and phase III of water treatment project in Meihu, Huizhou	Huizhou, Guangdong Province	惠州市環保局	BOT and TOT (Financial assets)	300,000	25 years from 2005 to 2030
武漢黃陂凱迪水務有限公司	Water supply project in Huangpi,	Wuhan, Hubei Province Wuhan	武漢市黃陂區政府	BOT (Intangible assets)	220,000	30 years from 2008 to 2038

As explained in the accounting policy for "Service concession arrangements" set out in Note 3, a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under service concession arrangement) or a combination of both, as appropriate. The intangible asset component is detailed in Note 19, and the financial asset component is as follows:

	2017 HK$'000	2016 HK$'000
Receivables under service concession arrangements	16,205,981	12,734,310
Less: current portion classified as current assets	(330,247)	(244,374)
Non-current portion	15,875,734	12,489,936

During the year, the Group recognised interest income of HK$850,285,000 (2016: HK$461,666,000) and construction income of HK$2,367,341,000 (2016: HK$1,202,701,000) as revenue under the line item "income from infrastructure facilities" from service concession arrangements. The effective interest rate applied ranges from 4.90% to 7.83% (2016: 4.90% to 7.83%) per annum and the overall gross profit margin for construction contracts is at 14.7% (2016: 11.5%).

(II) Provision for major overhauls

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

23. SERVICE CONCESSION ARRANGEMENTS (Continued)

(II) Provision for major overhauls (Continued)

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

	HK$'000
At 1 January 2016	72,294
Exchange adjustments	(4,245)
Additions through acquisition of Longjiang Environmental Protection (Note 37(III))	12,523
Additions	5,739
Utilisation	(4,234)
At 31 December 2016	82,077
Exchange adjustments	6,223
Additions	54
Utilisation	(3,021)
At 31 December 2017	85,333

24. DEPOSITS PAID ON ACQUISITION OF SUBSIDIARIES/PROPERTY, PLANT AND EQUIPMENT

At 31 December 2017, an aggregate amount of RMB129,020,000 (equivalent to HK$154,979,000) represented deposits paid by the Group on the acquisitions of 51.3% equity interest in Fangzi Tap Water Co., Ltd., 100% equity interest in Dalian Ziguang Water Treatment Co., Ltd. and 100% equity interest in Dalian Ziguang Lingshui Waste Water Treatment Co., Ltd. The acquisitions have been subsequently completed in February 2018.

The remaining amounts of HK$371,727,000 (2016: HK$139,974,000) represent deposits paid by the Group in connection with the acquisition of property, plant and equipment for the Group's new production facilities. The related capital commitments are disclosed in Note 40.

25. OTHER NON-CURRENT RECEIVABLES

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

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

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

During the year ended 31 December 2017, the Group and the Borrower entered into a supplementary loan agreement. Pursuant to the supplementary loan agreement, the fixed interest rate of the loans was changed to 5% per annum and an amount of RMB30,340,000 (equivalent to approximately HK$36,444,000) will be repaid on or before 31 December 2018 and therefore classify as current assets. The remaining amounts of RMB6,000,000, RMB8,000,000 and RMB8,260,000 (a total amount of RMB22,260,000 (equivalent to HK$26,739,000)) will be repayable on or before 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

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26. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Amortisation of toll road operating rights HK$'000	Revaluation of investment properties HK$'000	LAT on revaluation of investment properties HK$'000	Tax losses HK$'000	Fair value adjustments on business combinations HK$'000	Undistributed earnings of PRC entities HK$'000	Fair value adjustments on properties under development/ properties held for sale HK$'000	LAT on properties under development/ properties held for sale HK$'000	Convertible bonds HK$'000	Other deferred tax liabilities HK$'000	Other deferred tax assets HK$'000	Total HK$'000
At 1 January 2016	177,654	287,922	2,020,896	1,237,689	(10,319)	2,851,436	353,388	240,138	104,069	1,209	26,560	(404,270)	6,886,372
Exchange adjustments	(1,607)	(17,444)	(194,815)	(61,235)	141	(216,116)	(4,558)	(15,025)	(6,053)	–	39,731	1,413	(475,568)
Additions through acquisition of													
– Longjiang Environment													
Protection (Note 37(III))	–	–	–	–	–	679,758	–	–	–	–	–	(1,000)	678,758
– Shanghai Qiyao (Note 37(IV))	–	–	1,385,406	–	–	–	–	–	–	–	–	–	1,385,406
– Other subsidiaries (Note 37(V))	(4,490)	–	–	–	467	175,198	–	–	–	–	8,964	(11,654)	168,485
Charged (credited) to profit or loss	13,642	(28,639)	50,783	20,756	(9,166)	(236,128)	(66,677)	(13,127)	(16,062)	(1,058)	(24,431)	35,822	(274,285)
Charged to other comprehensive income	–	–	–	–	–	–	–	–	–	–	9,823	–	9,823
At 31 December 2016	185,199	241,839	3,262,270	1,197,210	(18,877)	3,254,148	282,153	211,986	81,954	151	60,647	(379,689)	8,378,991
Exchange adjustments	1,748	17,134	194,888	158,751	(8,103)	230,123	5,111	14,389	5,724	–	(8,952)	(2,374)	608,439
Additions through acquisition of													
Other subsidiaries (Note 37(II))	–	–	–	–	–	5,383	–	–	–	–	39,114	–	44,497
(Credited) charged to profit or loss	(10,991)	(28,708)	205,911	210,723	(39,507)	(321,481)	155,908	(40,266)	(11,697)	(120)	87,726	217,894	425,392
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	(8,727)	–	(8,727)
At 31 December 2017	175,956	230,265	3,663,069	1,566,684	(66,487)	3,168,173	443,172	186,109	75,981	31	169,808	(164,169)	9,448,592

Notes:

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

	2017 HK$'000	2016 HK$'000
Deferred tax liabilities	9,757,519	8,837,612
Deferred tax assets	(308,927)	(458,621)
	9,448,592	8,378,991

(ii) At the end of the reporting period, the Group had unused tax losses of approximately HK$7,323.1 million (2016: HK$6,071.7 million) available for offset against future assessable profits. A deferred tax asset amounting to approximately HK$66.5 million (2016: HK$18.9 million) in respect of tax losses amounting to approximately HK$266 million (2016: HK$75.5 million) has been recognised. No deferred tax asset was recognised in respect of the remaining tax losses of approximately HK$7,057 million (2016: HK$5,996.2 million) due to the unpredictability of future profit streams. The Hong Kong tax losses of approximately HK$16.2 million (2016: HK$15.3 million) may be carried forward indefinitely and the remaining PRC tax losses of approximately HK$7,306.9 million (2016: HK$6,056.4 million) will expire in various dates in the next five years.

(iii) Under the Law of the PRC on EIT, withholding tax is imposed on dividends declared in respect of profits earned by PRC entities from 1 January 2008 onwards. At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised was approximately HK$1,973 million (2016: HK$1,417 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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

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27. INVENTORIES

	2017 HK$'000	2016 HK$'000
Properties under development held for sale	37,189,493	30,190,506
Properties held for sale	12,808,877	13,649,553
Raw materials	1,568,727	1,667,720
Work in progress	32,311	32,537
Finished goods	255,062	337,252
Merchandise held for resale	30,010	21,854
	51,884,480	45,899,422

At 31 December 2017, included in the above balance were properties under development held for sale of HK$29,665,499,000 (2016: HK$18,519,645,000) which are not expected to be realised within one year.

Included in the properties held for sale as at 31 December 2017 were an amount of HK$6,390,973,000 (2016: HK$7,548,550,000) which represents properties located in first-tier cities, such as Beijing and Shanghai, the PRC and an amount of HK$6,417,904,000 (2016: HK$6,101,003,000) which represents properties located in other cities in the PRC, of which an amount of HK$4,136,632,000 (2016: HK$4,180,006,000) had no pre-sale during the year.

The net realisable values of properties held for sale of HK$2,383,592,000 (2016: HK$2,598,888,000) which are not located in first-tier cities in the PRC and have no pre-sale agreements entered into by the Group as at 31 December 2017 have been arrived at on the basis of a valuation carried out on the respective dates by C&W. C&W has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations. The Group's properties held-for-sale were valued individually, on market value basis, which conforms to HKIS Valuation Standards 2012 Edition published by Hong Kong Institute of Surveyors. The net realisable value of the Group's properties held-for-sale was arrived at by reference to comparable sales transactions available in the relevant market with adjustments according to nature of each property held-for-sale, its location and the prevailing selling price.

During the year ended 31 December 2017, in view of continuous slow turnover of certain properties held-for-sale located in cities other than first-tier cities in the PRC, the directors of the Company, after considering the results of valuation performed by C&W, had determined that the net realisable value of these properties is less than their carrying amount and an impairment loss of HK$280,519,000 (2016: HK$221,104,000) has been recognised in the profit or loss.

28. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	3,878,440	1,774,114
Less: allowance for doubtful debts	(79,162)	(86,254)
	3,799,278	1,687,860
Other receivables (note vi)	7,024,562	7,554,715
Total trade and other receivables	10,823,840	9,242,575

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28. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

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

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

	2017 HK$'000	2016 HK$'000
Within 30 days	2,307,041	511,349
Within 31-60 days	259,332	255,866
Within 61-90 days	144,823	324,616
Within 91-180 days	176,498	170,387
Within 181-365 days	274,976	158,327
Over 365 days	636,608	267,315
	3,799,278	1,687,860

(iii) Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$1,048,560,000 (2016: HK$482,940,000) which were past due at the reporting date but for which the Group has not provided for impairment loss because management is of the opinion that the amounts will be fully recoverable as there has not been any significant deterioration in credit quality of the debtors. The Group does not hold any collateral over these balances.

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

	2017 HK$'000	2016 HK$'000
31-60 days	290,137	90,118
61-90 days	68,813	39,168
91-180 days	124,131	73,815
181-365 days	219,872	93,081
Over 365 days	345,607	186,758
Total	1,048,560	482,940

(v) Movements in the allowance for doubtful debts

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	86,254	43,395
Impairment losses recognised on receivables	34,710	55,156
Amounts written off as uncollectible	(3,203)	(9,578)
Amounts recovered during the year	(38,599)	(2,719)
Balance at end of the year	79,162	86,254

(vi) At 31 December 2017, included in other receivables were (a) consideration receivable of Nil as detailed in Note 38(II) (2016: HK$348,838,000) and (b) amounts of HK$2,224,936,000 (2016: HK$3,572,465,000) due from certain associates of which an amount of HK$1,996,708,000 (2016: HK$3,360,317,000) carries fixed interest at prevailing market interest rates.

29. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2017 HK$'000	2016 HK$'000
Contracts in progress in relation to construction of sewage treatment, water supply, waste incineration and sludge treatment plants at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	3,237,624	1,774,150
Less: progress billings	(1,966,168)	(1,087,950)
	1,271,456	686,200
Analysed for reporting purposes as:		
Amounts due from contract customers	1,291,540	710,079
Amounts due to contract customers	(20,084)	(23,879)
	1,271,456	686,200

As at 31 December 2017, retentions held by customers for contract works amounted to Nil (2016: HK$5,498,000). Advances received from customers for contract work amounted to HK$4,805,000 (2016: HK$166,695,000).

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

(i) bank deposits with maturity of less than one year of HK$751,162,000 (2016: HK$430,853,000) have been pledged to secure the Group's general banking facilities and are therefore classified as current assets. The pledged bank deposits carry interest at fixed interest rates, ranging from 0.3% to 2.6% (2016: 0.3% to 3.1%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

(ii) Short-term bank deposits with maturity of more than three months carry interest at market rates, ranging from of 0.8% to 2.08% (2016: 1.1% to 1.55%) per annum.

(iii) Bank balances (including bank deposits with maturity of less than three months) carry interest at market rates, ranging from 0.00% to 5.40% (2016: 0.00% to 5.90%) per annum.

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

	2017 HK$'000	2016 HK$'000
Renminbi	130,057	85,196
United States dollar	491,448	868,040
Hong Kong dollar	51,773	353,291

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31. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables (note i)	4,728,477	4,085,857
Consideration payables for acquisition of subsidiaries	–	398,413
Other payables (note ii)	12,728,542	10,181,613
Total trade and other payables	17,457,019	14,665,883

Notes:

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

	2017 HK$'000	2016 HK$'000
Within 30 days	1,108,769	869,497
Within 31-60 days	229,024	391,452
Within 61-90 days	460,330	256,090
Within 91-180 days	518,238	603,626
Within 181-365 days	1,084,060	868,971
Over 365 days	1,328,056	1,096,221
	4,728,477	4,085,857

(ii) Included in other payables as at 31 December 2017 were (a) amounts of HK$476,766,000 (2016: HK$352,715,000) due to State-owned Assets Supervision and Administration Commission of Shanghai Xuhai District (the "Xuhui SASAC") and entities controlled by the Xuhui SASAC (see note 44(I)(a)(iv)), (b) amounts of HK$1,268,000 (2016: HK$1,086,000) due to certain fellow subsidiaries, which are unsecured and have no fixed terms of repayment, (c) accrued expenditure on properties under development of HK$2,458,988,000 (2016: HK$2,861,832,000) and (d) bills payable of HK$1,513,473,000 (2016: HK$219,294,000).

32. CUSTOMER DEPOSITS FROM SALES OF PROPERTIES

These represent proceeds received on property sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy. An amount of approximately HK$58 million (2016: HK$58 million) is expected to be recognised as revenue after more than one year.

33. BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans	41,858,478	35,961,907
Other loans	10,861,713	10,187,580
	52,720,191	46,149,487
Analysed as:		
Secured	18,770,380	14,847,829
Unsecured	33,949,811	31,301,658
	52,720,191	46,149,487
Carrying amount repayable:		
Within one year	11,703,042	8,553,493
More than one year but not more than two years	6,546,857	8,381,350
More than two years but not more than five years	26,857,127	20,347,030
Over five years	7,613,165	8,867,614
	52,720,191	46,149,487
Less: amounts due within one year shown under current liabilities	(11,703,042)	(8,553,493)
	41,017,149	37,595,994

Notes:

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

	2017 HK$'000	2016 HK$'000
Fixed-rate borrowings:		
Within one year	3,727,326	1,931,704
More than one year but not more than two years	42,581	154,464
More than two years but not more than three years	1,895,271	1,832,931
More than three years but not more than four years	2,360,953	14,800
More than four years but not more than five years	1,894,070	539,002
More than five years	175,722	35,730
	10,095,923	4,508,631

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

	2017	2016
Effective interest rate:		
Fixed-rate borrowings	0.80%-7.50%	0.80% to 9.00%
Variable-rate borrowings	0.80%-7.48%	0.80% to 7.80%

(iii) Included in the Group's bank borrowings is an amount of HK$8,400 million (2016: HK$6,000 million) drawn under syndicated loan facilities of HK$8,400 million (2016: HK$6,000 million) obtained by the Group. Transaction costs of approximately HK$24 million (2016: HK$24 million) which were directly attributable to such bank borrowings were deducted from the fair values of the bank borrowings on initial recognition. At 31 December 2017, the carrying value of such bank borrowings was approximately HK$8,351 million (2016: HK$5,956 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(iv) Included in other loans are advanced bonds (the "Bonds") with an aggregate amount of HK$9,576,977,000 (2016: HK$8,889,098,000) issued by non-wholly owned subsidiaries of the Group (the "Issuers") in the PRC in 2012, 2015 and 2016, which are listed on Shanghai Stock Exchange. The Bonds with aggregate principal amount of RMB8,000,000,000 are unsecured and have maturities of three to seven years falling due between 2018 and 2022. The bondholders have the rights to request the Issuers to redeem the bonds at their third to fifth anniversary. The Bonds carry interest at fixed rates of 3.23% to 6.50% per annum or a variable rate of Shanghai Interbank Offered Rate plus 1.00% per annum (2016: a fixed rate of 3.23% to 6.50% per annum or a variable rate of Shanghai Interbank Offered Rate plus 1.55% per annum). The range of effective interest rates applied to the Bonds is 4.12% to 7.19% per annum (2016: 4.12% to 7.19% per annum).

(v) Certain bank facilities granted to the Group include requirements that (a) SIIC retains management control over the Company and holds not less than 35% of the Company's voting capital and (b) SIIC remains under the control of the Shanghai Municipal People's Government.

34. CONVERTIBLE BONDS

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

The principal terms of CB 2018 are as follows:

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

The holders of CB 2018 have the option to require the Issuer to redeem all or some only of CB 2018 on 18 February 2016 at a pre-determined redemption amount ("Holders' Redemption Option").

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

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

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

During the year ended 31 December 2016, the Issuer also repurchased part of the CB 2018 with a principal amount of HK$108,000,000 at a consideration of HK$109,080,000.

At 31 December 2017, the outstanding principal amount of CB 2018 was HK$32,000,000 (31 December 2016: HK$32,000,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. CONVERTIBLE BONDS (Continued)

Subsequent to the end of the reporting period and on 18 February 2018, CB 2018 became mature and hence the entire outstanding balance of CB 2018 was redeemed and cancelled in full upon maturity, in accordance with the terms and conditions of the CB 2018.

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

	Liability component HK$'000	Equity component HK$'000
At 1 January 2016	3,681,843	104,956
Interest charged	1,578	–
Redemption	(3,540,988)	(100,848)
Repurchase	(109,711)	(3,169)
At 31 December 2016	32,722	939
Interest charged	727	–
At 31 December 2017	33,449	939

35. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares, issued and fully paid:		
At 1 January 2016	1,085,850,600	13,615,889
Exercise of share options (note)	715,000	17,560
At 31 December 2016	1,086,565,600	13,633,449
Exercise of share options (note)	646,000	16,390
At 31 December 2017	1,087,211,600	13,649,839

Note: During the year ended 31 December 2017, the Company issued 646,000 (2016: 715,000) shares to the option holders who exercised their share options at the exercise prices of HK$23.69 (2016: HK$22.71) under the SIHL Scheme (as defined in Note 36). These new shares rank pari passu in all respects with other shares in issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. SHARE-BASED PAYMENT TRANSACTIONS

Details of the equity-settled share option schemes adopted by the Company and other members of the Group are as follows:

(I) SIHL Scheme

(a) The principal terms of the SIHL Scheme are set out below.

The Company, in accordance with Chapter 17 of the Listing Rules, adopted a share option scheme (the "SIHL Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 31 May 2002. The SIHL Scheme was valid and effective for a period of 10 years commencing the date of its adoption and terminated on 25 May 2012. Upon termination, no further share options would be granted and all previously granted share options remained valid until the end of the exercisable period. The SIHL Scheme was to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as the board of directors (the "Board") may approve from time to time.

According to the SIHL Scheme, the Board of the Company could grant options to any director or employee of each member of the Group (including a company in which (i) the Company was directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board of the Company, the Company was able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the Group who had rendered service or would render service to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Share options granted were to be accepted within 30 days from the date of grant.

The Board of the Company could at its absolute discretion, determine and notify each grantee the period during which a share option could be exercised, such period were to expire not later than 10 years from the date of grant of the share options. Subject to the provisions of the SIHL Scheme, the Board of the Company could at its discretion when offering the grant of a share option impose any conditions, restrictions or limitations in relation thereto as it may think fit.

The subscription price for shares in the Company were to be a price solely determined by the Board of the Company and notified to an eligible participant, and were to be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(I) SIHL Scheme (Continued)

(a) (Continued)

The total number of shares which could be issued upon exercise of all options to be granted under the SIHL Scheme and any other share option schemes of the Company was not in aggregate to exceed 10% of the total number of shares of the Company in issue as at the date of approval of the SIHL Scheme. The maximum number of shares which could be issued upon exercise of all outstanding options granted and yet to be exercised under the SIHL Scheme and any other share option schemes of the Company was not to exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant under the SIHL Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period was not to exceed 1% of the total number of shares in issue unless approved by the shareholders of the Company.

(b) As at 31 December 2017, the number of shares in respect of which options were granted and which remained outstanding was nil (2016: 1,140,000), representing 0.0% (2016: 0.1%) of the shares of the Company in issue at that date.

The following table discloses movements of the Company's options under the SIHL Scheme held by the Group's directors, employees and other eligible participants during the year:

Month of grant	Exercise price per share HK$	Outstanding at 1.1.2016	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2016	Exercised during the year	Lapsed during the year	**Outstanding at 31.12.2017**
September 2011	22.71	13,501,000	(715,000)	(236,000)	(12,550,000)	–	–	–	–
May 2012	23.69	1,140,000	–	–	–	1,140,000	(646,000)	(494,000)	–
		14,641,000	(715,000)	(236,000)	(12,550,000)	1,140,000	(646,000)	(494,000)	–
Exercisable at the end of the year						1,140,000			–
Weighted average exercise price		22.79	22.71	22.71	22.71	23.69	23.69	23.69	N/A

Details of the share options held by the directors of the Company included in the above table are as follows:

Month of grant	Exercise price per share HK$	Outstanding at 1.1.2016	Reclassified during the year	Lapsed during the year	Outstanding at 31.12.2016	Exercised during the year	Lapsed during the year	**Outstanding at 31.12.2017**
September 2011	22.71	2,168,000	(776,000)	(1,392,000)	–	–	–	–
May 2012	23.69	600,000	–	–	600,000	(106,000)	(494,000)	–
		2,768,000	(776,000)	(1,392,000)	600,000	(106,000)	(494,000)	–
Exercisable at the end of the year					600,000			–
Weighted average exercise price		22.92	22.71	22.71	23.69	23.69	23.69	N/A

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36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(I) SIHL Scheme (Continued)

(b) (Continued)

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

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

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

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

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$24.19 (2016: HK$23.09). Total consideration received for shares issued upon exercise of share options, net of direct issue costs of HK$7,000 (2016: HK$1,000), was HK$15,297,000 (2016: HK$16,237,000).

(II) SIHL New Scheme

The principal terms of the SIHL New Scheme are set out below.

The Company, in accordance with Chapter 17 of the Listing Rules, adopted a share option scheme (the "SIHL New Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 25 May 2012. The SIHL New Scheme shall be valid and effective for a period of 10 years commencing the date of its adoption, after which period no further share options will be granted. The SIHL New Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as the Board may approve from time to time.

According to the SIHL New Scheme, the Board of the Company may grant options to any director or employee of each member of the Group (including a company in which (i) the Company is directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board of the Company, the Company is able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the Group who have rendered service or will render service to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Share options granted should be accepted within 30 days from the date of grant.

The Board of the Company may at its absolute discretion, determine and notify each grantee the period during which a share option may be exercised, such period should expire not later than 10 years from the date of grant of the share options. Subject to the provisions of the SIHL New Scheme, the Board of the Company may at its discretion when offering the grant of a share option impose any conditions, restrictions or limitations in relation thereto as it may think fit.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(II) SIHL New Scheme (Continued)

The subscription price for shares in the Company shall be a price solely determined by the Board of the Company and notified to an eligible participant, and shall be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the SIHL New Scheme and any other share option schemes of the Company shall not in aggregate to exceed 10% of the total number of shares of the Company in issue as at the date of approval of the SIHL New Scheme. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SIHL New Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant under the SIHL New Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue unless approved by the shareholders of the Company.

During both years, no options were granted or outstanding under the SIHL New Scheme.

(III) SI Urban Development Scheme

(a) The principal terms of the SI Urban Development Scheme are set out below.

A listed subsidiary of the Company, SI Urban Development, operates a share option scheme (the "SI Urban Development Scheme") which was first adopted on 12 December 2002 in a special general meeting of SI Urban Development. Under the SI Urban Development Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SI Urban Development Scheme and options granted and yet to be exercised under any other schemes shall not exceed 30% of the issued share capital of SI Urban Development from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the issued share capital of SI Urban Development at any time.

The offer of a grant of options may be accepted within 21 days from the date of the offer with signed acceptance letter comprising consideration of HK$1 received by SI Urban Development. The exercise period of the share options granted is determinable by the directors of SI Urban Development, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors of SI Urban Development, but in any case must be the highest of (i) the closing price of SI Urban Development's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of SI Urban Development's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of SI Urban Development's shares.

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36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(III) SI Urban Development Scheme (Continued)

(b) As at 31 December 2017, the number of shares of SI Urban Development in respect of which options were granted and which remained outstanding was 27,750,000 (2016: 41,750,000), representing 0.58% (2016: 0.87%) of the shares of SI Urban Development in issue at that date.

The following table discloses movements of share options granted during the year:

Grantees	Month of grant	Exercised price per share HK$	Outstanding at 1.1.2016	Cancelled during the year	Outstanding at 31.12.2016	Reclassified during the year	Forfeited during the year	**Outstanding at 31.12.2017**
Former directors of SI Urban Development, who are also directors of the Company	September 2010	2.98	7,000,000	–	7,000,000	–	(7,000,000)	–
Other directors of SI Urban Development	September 2010	2.98	23,000,000	(1,000,000)	22,000,000	6,000,000	(7,000,000)	21,000,000
Employees of SI Urban Development	September 2010	2.98	12,750,000	–	12,750,000	(6,000,000)	–	6,750,000
			42,750,000	(1,000,000)	41,750,000	–	(14,000,000)	27,750,000
Exercisable at the end of the year					41,750,000			27,750,000

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

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

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

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(IV) SI Urban Development New Scheme

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

SI Urban Development, operates a share option scheme (the "SI Urban Development New Scheme") which was first adopted on 16 May 2013 in an annual general meeting of SI Urban Development. Under the SI Urban Development New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SI Urban Development New Scheme and options granted and yet to be exercised under any other schemes shall not exceed 30% of the issued share capital of SI Urban Development from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the issued share capital of SI Urban Development at any time.

The offer of a grant of options may be accepted within 21 days from the date of the offer with signed acceptance letter comprising consideration of HK$1 received by SI Urban Development. The exercise period of the share options granted is determinable by the directors of SI Urban Development, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors of SI Urban Development, but in any case must be the highest of (i) the closing price of SI Urban Development's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of SI Urban Development's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of SI Urban Development's shares.

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

(V) SIIC Environment Scheme

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

SIIC Environment operates a share option scheme (the "SIIC Environment Scheme"), which was adopted on 27 April 2012 in an extraordinary general meeting of SIIC Environment. The SIIC Environment Scheme shall be valid and effective for a period of 5 years commencing the date of its adoption, after which period no further share options will be granted. The aggregate nominal amount of shares which may be issued and issuable in respect of all options granted under the SIIC Environment Scheme, shall not exceed 15% of the issued share capital of SIIC Environment (excluding treasury shares) from time to time.

Under the SIIC Environment Scheme, the aggregate number of shares in relation to the grant of options that are available to the controlling shareholders or their associates shall not exceed 25% of the total number of shares which may be granted under the SIIC Environment Scheme. The number of shares available to any one controlling shareholder or his/her associate(s) shall not exceed 10% of the total number of shares which may be granted under the SIIC Environment Scheme.

Under the SIIC Environment Scheme, SIIC Environment can grant options at a price which is equal to the average of the last dealt prices for the share, as determined by reference of the daily official list or any other publication published by the SGX-ST for the three consecutive trading days immediately preceding the date of grant ("Price"). Options will not be granted at a discount to the Price.

The offer of the grant of an option is to be accepted by the grantee within 30 days from the date of offer of that option and, in any event, not later than 5:00 p.m. on the 30th day from such date of offer by completing, signing and returning the acceptance form accompanied by payment of S$1.00 as consideration. The exercise period of the share options granted is determinable by the remuneration committee of SIIC Environment. Options granted with exercise price set at Price are only to be exercisable, in whole or in part, after the 1st anniversary of the date of offer. Options granted to non-executive directors and employees of the associated companies can be exercised before the 5th anniversary of the relevant date of offer.

During both years, no options were granted or outstanding under the SIIC Environment Scheme.

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37. ACQUISITION OF SUBSIDIARIES

(I) Acquisition of additional interests in Quanzhou Shangshi Investment during the year ended 31 December 2017

In December 2017, the SI Development entered into a share transfer agreement with an independent third party, pursuant to which the Group would acquire 2% of equity interest in 泉州市上實投資發展有限公司 ("Quanzhou Shangshi Investment"), a former 49% owned associate of the Group engaging in property development and sales in the PRC, at a consideration of RMB18,800,000 (equivalent to HK$22,112,000). Upon completion of the acquisition in the same month, the Group holds 51% equity interest in Quanzhou Shangshi Investment which then becomes a non-wholly owned subsidiary of the Group. Quanzhou Shangshi Investment was acquired so as to continue the expansion of the Group's business in property development.

	HK$'000
Consideration transferred	
Cash	22,112
Interest in an associate (note i)	541,755
	563,867
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	881
Inventories – properties under development held for sale	4,213,458
Trade and other receivables	1,593,717
Bank balances and cash	180,579
Trade and other payables	(3,227,494)
Customer deposits from sales of properties	(1,576,523)
Taxation payable	(78,996)
	1,105,622
Goodwill arising on acquisition	
Consideration transferred	563,867
Add: non-controlling interests (note ii)	541,755
Less: net assets acquired	(1,105,622)
	–
Net cash inflow arising on acquisition	
Cash consideration paid	22,112
Less: bank balances and cash acquired	(180,579)
	(158,467)

37. ACQUISITION OF SUBSIDIARIES (Continued)

(I) Acquisition of additional interests in Quanzhou Shangshi Investment during the year ended 31 December 2017 (Continued)

Notes:

(i) The previously held interest in Quanzhou Shangshi Investment was remeasured at fair value at the date of acquisition and the resulting gain of HK$206,559,000 was recognised in profit or loss (Note 8).

(ii) Included in the amount is the 49% non-controlling interests in Quanzhou Shangshi Investment recognised at the acquisition date that was measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets of Quanzhou Shangshi Investment at that date.

(iii) No significant revenue and profit of the Group was generated by Quanzhou Shangshi Investment for the year ended 31 December 2017 as the acquisition was completed in December 2017.

Had the acquisition been completed on 1 January 2017, total group revenue for the current year would have been HK$33,188,393,000, and profit for the year would have been HK$5,627,138,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

(iv) The trade and other receivables in this transaction had gross contractual amounts of HK$1,593,717,000 which approximates their fair values.

(II) Acquisition of other subsidiaries for the year ended 31 December 2017

During the year 31 December 2017, the Group also acquired the following subsidiaries:

(i) In January 2017, the Group through its 98.75% owned subsidiary, Longjiang Environmental Protection, acquired 100% equity interest in Longjiang Environmental Water Resource (Hegang) Co., Ltd. (previously named as Citic Envirotech Water Resource (Hegang) Co., Ltd.) ("Hegang Longjiang") at a consideration of RMB111,870,000 (equivalent to HK$126,521,000). Hegang Longjiang is engaged principally in the operation of two wastewater treatment plants and one reclaimed water project in the PRC.

(ii) In July 2017, the Group acquired 100% equity interest in Pinghu Dushan Wastewater Treatment Co., Ltd. ("Pinghu Dushan") at a consideration of RMB9,113,000 (equivalent to HK$10,509,000). Pinghu Dushan is engaged principally in the business of wastewater treatment in the PRC.

(iii) In August 2017, the Group through its 98.75% owned subsidiary, Longjiang Environmental Protection, acquired 100% equity interest in Jiaohe Jiaxin Water Co., Ltd. ("Jiaohe Jiaxin") at a consideration of RMB95,000,000 (equivalent to HK$109,548,000). Jiaohe Jiaxin is engaged principally in the business of environmental protection, wastewater treatment, technology development, technical services in the PRC.

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37. ACQUISITION OF SUBSIDIARIES (Continued)

(II) Acquisition of other subsidiaries for the year ended 31 December 2017 (Continued)

	Hegang Longjiang HK$'000 (Note a)	Pinghu Dushan HK$'000 (Note b)	Jiaohe Jiaxin HK$'000	Total HK$'000
Consideration transferred				
Cash	126,521	10,509	109,548	246,578
Assets acquired and liabilities recognised at the date of acquisition are as follows:				
Other intangible assets	44,938	21,905	32,051	98,894
Receivables under service concession arrangements	176,035	154,923	137,460	468,418
Inventories	–	23	39	62
Trade and other receivables	61,120	3,827	2,037	66,984
Pledged bank deposits	–	5,311	–	5,311
Bank balances and cash	1,131	667	1,629	3,427
Trade and other payables	(143,966)	(104,379)	(25,648)	(273,993)
Taxation payable	–	–	(174)	(174)
Bank and other borrowings	–	(64,576)	(5,181)	(69,757)
Deferred tax liabilities	(4,640)	(7,192)	(32,665)	(44,497)
	134,618	10,509	109,548	254,675
Gain from bargain purchase arising on acquisition				
Consideration transferred	126,521	10,509	109,548	246,578
Less: net assets acquired	(134,618)	(10,509)	(109,548)	(254,675)
	(8,097)	–	–	(8,097)
Net cash outflow (inflow) arising on acquisition				
Cash consideration paid	126,521	10,509	109,548	246,578
Less: bank balances and cash acquired	(1,131)	(667)	(1,629)	(3,427)
	125,390	9,842	107,919	243,151

37. ACQUISITION OF SUBSIDIARIES (Continued)

(II) Acquisition of other subsidiaries for the year ended 31 December 2017 (Continued)

Notes:

(a) A bargain purchase gain of HK$8,097,000 is recognised on the acquisition of Hegang Longjiang. The introduction of SIIC Environment as the new controlling shareholder of Hegang Longjiang was expected to strengthen its capital base, meet its working capital requirements and facilitate its future business development and expansion. In the opinion of the directors of the Company, the above are the key factors leading to the recognition of the bargain purchase gain.

(b) The initial accounting of this acquisition is not yet completed and the assets acquired and liabilities recognised and the amounts recognised in the consolidated financial statements for this acquisition has been determined provisionally. The purchase price allocation exercise in respect of the above acquisition has not yet been finalised at the date of issuance of these consolidated financial statements.

The contribution to the Group's revenue or financial performance of the above acquired subsidiaries for the year ended 31 December 2017 as follows:

(i) Included in the profit for the year ended 31 December 2017 were revenue of HK$21,763,000 and loss of HK$2,297,000 attributable to the additional business generated by Hegang Longjiang.

No pro forma information for the acquisition of Hegang Longjiang is prepared as the acquisition was completed in January 2017 and the directors of the Company are of the opinion that there is no significant changes to the Group's revenue or profit for the year had the acquisition been completed on 1 January 2017.

(ii) Included in the profit for the year ended 31 December 2017 were revenue of HK$35,694,000 and loss of HK$5,450,000 attributable to the additional business generated by Pinghu Dushan.

Had the acquisition been completed on 1 January 2017, total group revenue for the current year would have been HK$29,514,611,000, and profit for the year would have been HK$5,138,055,000. The pro forma information is for illustrative purposes only and is not necessarily and indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

(iii) Included in the profit for the year ended 31 December 2017 were revenue of HK$9,007,000 and profit of HK$1,746,000 attributable to the additional business generated by Jiaohe Jiaxin.

Had the acquisition been completed on 1 january 2017, total group revenue for the current year would have been HK$29,514,781,000, and profit for the year would have been HK$5,160,833,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 january 2017, nor is it intended to be a projection of future results.

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37. ACQUISITION OF SUBSIDIARIES (Continued)

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

In October 2016, the Group through its wholly owned subsidiary, Hong Kong Shun Yuen Investment (Holdings) Limited ("Shun Yuen"), and a listed subsidiary, SIIC Environment entered into acquisition agreements with certain independent third parties, pursuant to which the Group would acquire a total of approximately 47.8906% of equity interests in Longjiang Environment Protection, a former associate of the Group, at an aggregate consideration of RMB1,226,000,000 (equivalent to HK$1,368,914,000). Upon completion of the acquisitions in the same month, the Group holds a total of 90% equity interest in Longjiang Environment Protection which then becomes a non-wholly owned subsidiary of the Group.

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

37. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

Notes:

(i) The previously held interest in Longjiang Environment Protection was remeasured at fair value at the date of acquisition and the resulting gain of HK$308,565,000 was recognised in profit or loss (Note 8).

(ii) Included in the amount is the 10% non-controlling interests in Longjiang Environment Protection recognised at the acquisition date that was measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets of Longjiang Environment Protection at that date and the non-controlling interests of Longjiang Environment Protection.

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

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

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

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

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

Note: The consideration payable is withheld by the Group for settlement of EIT of the seller to the relevant PRC tax authority arising from the acquisition. As at 31 December 2017, the outstanding consideration payable was RMB22,100,000 (equivalent to HK$26,547,000) and was included in other payable.

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37. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

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

	HK$'000
Net cash outflow arising on acquisition	
Cash consideration paid	2,491,647
Less: Bank balances and cash acquired	(81,566)
	2,338,081

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37. ACQUISITION OF SUBSIDIARIES (Continued)

(V) Acquisition of other subsidiaries during the year ended 31 December 2016

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

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

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

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

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

(ii) In February 2016, SIIC Environment, completed its acquisition of 90% equity interest in Yiyang City Tap Water Co., Ltd. ("Yiyang City") from an independent third party at a cash consideration of RMB288,188,000 (equivalent to HK$342,388,000). Yiyang City is principally engaged in the business of operating water supply plants and projects in the PRC.

(iii) In December 2016, SIIC Environment completed the acquisition of 60% equity interest in Ranhill Water (Hong Kong) Co., Ltd. ("Ranhill") from an independent third party at a cash consideration of RMB273,900,000 (equivalent to HK$305,828,000). Ranhill and its subsidiaries are principally engaged in undertaking industrial wastewater treatment services, as well as providing consultancy services on potable water, wastewater technologies and environmental protection facilities.

(iv) In August 2016, the Group acquired 74.8% equity interest of Rypax Ltd. ("Rypax") from certain independent third parties at an aggregate cash consideration of US$10,427,000 (equivalent to HK$81,331,000). Rypax is principally engaged in trading of molded fiber goods and it was acquired for the expansion of the Group's molded fiber goods business portfolio.

(v) In July 2016, SI Development completed the acquisition of additional 60% equity interest in 上海嘉薈房地產有限公司 ("上海嘉薈"), a former 40% held associate of the Group, for a total cash consideration of RMB15,000,000 (equivalent to HK$16,749,000). Upon completion of the acquisition, the Group has an interest in 100% of the equity interest in 上海嘉薈. 上海嘉薈 is principally engaged in the business of property development and sales in the PRC.

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37. ACQUISITION OF SUBSIDIARIES (Continued)

(V) Acquisition of other subsidiaries during the year ended 31 December 2016 (Continued)

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

37. ACQUISITION OF SUBSIDIARIES (Continued)

(V) Acquisition of other subsidiaries during the year ended 31 December 2016 (Continued)

Notes:

(i) Included in the amounts are the non-controlling interests of the subsidiaries acquired recognised at the respective acquisition dates that were measured with reference to the non-controlling interests' proportionate share of the fair value of the net assets at those dates and the non-controlling interests of those acquired subsidiaries.

(ii) Goodwill arose in the acquisitions in both years because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

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

38. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES

(I) Disposal of Green Carbon Fund

During the year ended 31 December 2015, (i) SUD (as defined in Note 47), (ii) Green Carbon Fund, a limited partnership established in the PRC, (iii) the Departing Partner, and (iv) the New Partners entered into an investment agreement. Pursuant to which, the New Partners invested RMB1,368,000,000 (equivalent to HK$1,633,628,000) into Green Carbon Fund, and same amount was then advanced from Green Carbon Fund to SUD for the purpose of identifying investment opportunities on new projects.

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

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

(II) Disposal of SUD Longcheng

On 12 May 2016, SUD entered into an equity transfer agreement with 中庚地產實業集團有限公司 (Zhonggeng Real Estate Industrial Group Co., Ltd.,) ("Zhonggeng Real Estate"), a connected person of the Company at the subsidiary level. Pursuant to the equity transfer agreement, SUD agreed to dispose of an exclusive right for the remaining designated portion of the "U Center" project held by SUD Longcheng, through disposal of 40% equity interest in SUD Longcheng, for a consideration of RMB1,907,000,000 (equivalent to HK$2,225,464,000). The consideration carries interest at the People's Bank of China rate and is payable by instalments within one year. As at 31 December 2016, RMB1,607,000,000 (equivalent to HK$1,868,605,000) has been settled and the remaining consideration receivable of RMB300,000,000 (equivalent to HK$348,838,000) was fully settled during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. DISPOSAL OF ASSETS THROUGH DISPOSAL OF INTERESTS IN SUBSIDIARIES (Continued)

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

	Green Carbon Fund HK$'000	SUD Longcheng HK$'000	Total HK$'000
Consideration			
Deposit received as at 31 December 2015	1,633,628	–	1,633,628
Cash received	358,252	1,868,605	2,226,857
Consideration receivables (Note 28(vi))	–	348,838	348,838
	1,991,880	2,217,443	4,209,323
Analysis of assets and liabilities over which control was lost			
Properties, plant and equipment	–	755	755
Properties under development for sale	2,393,272	2,597,248	4,990,520
Other receivables	3,045	4,369,843	4,372,888
Bank balances and cash	–	107,931	107,931
Other payables	(1,518,600)	(557,811)	(2,076,411)
Bank borrowings	–	(5,581,395)	(5,581,395)
Net assets disposed of	877,717	936,571	1,814,288
Gain on disposal of assets through disposal of a subsidiary			
Consideration	1,991,880	2,217,443	4,209,323
Net assets disposed of	(877,717)	(936,571)	(1,814,288)
	1,114,163	1,280,872	2,395,035
Net cash inflow arising on disposal			
Cash received	358,252	1,868,605	2,226,857
Less: bank balances and cash disposed of	–	(107,931)	(107,931)
	358,252	1,760,674	2,118,926

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

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39. OPERATING LEASES

(I) The Group as lessee

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

	2017 HK$'000	2016 HK$'000
Within one year	144,727	53,868
In the second to fifth year inclusive	236,916	68,254
After five years	116,877	48,008
	498,520	170,130

Notes:

(i) Operating lease payments represent rentals payable by the Group for certain office and factory properties. Leases are negotiated for an average term of 20 years (2016: 20 years) and rentals are fixed for a lease term of 1 to 5 years (2016: 1 to 5 years).

(ii) Included in the above are operating lease commitments for land and buildings payable by the Group to the ultimate holding company and certain fellow subsidiaries as follows:

	2017 HK$'000	2016 HK$'000
Within one year	48,604	8,007

(II) The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties:

	2017 HK$'000	2016 HK$'000
Within one year	785,413	612,064
In the second to fifth year inclusive	1,485,060	1,098,640
After five years	735,432	580,128
	3,005,905	2,290,832

Note: Included in the above are operating lease commitments for investment properties of approximately HK$49.9 million (2016: HK$24.6 million) receivable by the Group from certain fellow subsidiaries within one year.

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40. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of property, plant and equipment	27,792	19,009
– additions in construction in progress	1,085,862	1,475,400
– additions in properties under development held for sale	4,613,043	4,283,648
– investment in an associate	57,658	53,595
– others	15,960	–
	5,800,315	5,831,652

41. CONTINGENT LIABILITIES

	2017 HK$'000	2016 HK$'000
Guarantees given to banks in respect of banking facilities utilised by		
– property buyers	4,652,215	4,926,279
– an entity controlled by the Xuhui SASAC	–	163,019
– joint ventures	2,164,269	1,779,633
	6,816,484	6,868,931

As at 31 December 2017, the Company granted financial guarantees to the extent of approximately HK$13,415 million (2016: HK$14,400 million) to banks in respect of banking facilities granted to its subsidiaries, out of which approximately HK$8,407 million (2016: HK$7,307 million) were utilised.

42. PLEDGE OF ASSETS

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

(i) investment properties with an aggregate carrying value of HK$12,056,862,000 (2016: HK$11,585,060,000);

(ii) leasehold land and buildings with an aggregate carrying value of HK$150,233,000 (2016: HK$906,567,000);

(iii) plant and machineries with an aggregate carrying value of HK$34,601,000 (2016: HK$20,218,000);

(iv) one (2016: one) toll road operating right with a carrying value of HK$2,410,356,000 (2016: HK$2,415,929,000);

(v) receivables under service concession arrangements with an aggregate carrying value of HK$10,131,288,000 (2016: HK$9,179,515,000);

(vi) properties under development held for sale with an aggregate carrying value of HK$1,930,280,000 (2016: HK$5,644,075,000);

(vii) properties held for sale with an aggregate carrying value of HK$338,443,000 (2016: HK$16,233,000);

(viii) trade receivables with an aggregate carrying value of HK$10,694,000 (2016: HK$63,968,000); and

(ix) bank deposits with an aggregate carrying value of HK$751,162,000 (2016: HK$430,853,000).

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43. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate a defined contribution retirement benefits scheme for their qualifying employees pursuant to the Occupational Retirement Schemes Ordinance. To comply with the Mandatory Provident Fund Schemes Ordinance, a Mandatory Provident Fund Scheme was also established. The assets of both schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the consolidated statement of profit or loss represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the defined contribution retirement benefits scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

The employees employed by the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the end of the reporting period, no forfeited contributions were available to reduce the contribution payable in future years.

The total expense recognised in profit or loss of HK$154,326,000 (2016: HK$117,923,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

44. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Connected persons

(a) During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. The significant transactions with the connected parties during the year, and significant balances with them at the end of the reporting period, are as follows:

Connected persons	Nature of transactions and balances	2017 HK$'000	2016 HK$'000
Transactions			
Ultimate holding company	Rentals paid by the Group on land and buildings (note i)	1,730	1,752
Fellow subsidiaries	Rentals and management fee paid by the Group on land and buildings (note i)	19,003	49,812
Joint venture	Loan provided by the Group	696,697	614,113
	Interest income received by the Group (notes ii & iii)	30,212	24,747
Balance			
Non-controlling shareholders of subsidiary:			
The Xuhui SASAC and entities controlled by the Xuhui SASAC	Non-trade payables by the Group (note iv)	476,766	352,715

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

(I) Connected persons (Continued)

(a) (Continued)

Notes:

(i) The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.

Details of operating lease commitments with connected parties are set out in Note 39.

(ii) In September 2014, 上海滬寧高速公路(上海段)發展有限公司 (Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited) ("Hu-Ning Expressway"), a wholly owned subsidiary of the Company, entered into a shareholder's loan agreement with Shanghai Galaxy, a non-wholly owned subsidiary of SIIC. Pursuant to which, Hu-Ning Expressway agreed to lend, and Shanghai Galaxy agreed to borrow, a shareholder's loan in an amount of RMB200,000,000 (equivalent to HK$238,834,000). In April 2015, both parties entered into the second shareholder's loan agreement, in terms of which Hu-Ning Expressway agreed to lend, and Shanghai Galaxy agreed to borrow, an additional shareholder's loan in an amount of RMB150,000,000 (equivalent to HK$179,126,000). In December 2017, both parties entered into the third shareholder's loan agreement, in terms of which Hu-Ning Expressway has agreed to lend, and Shanghai Galaxy has agreed to borrow, an additional shareholder's loan in an amount of RMB30,000,000 (equivalent to HK$36,036,000).

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

As at 31 December 2017, the loan provided to Shanghai Galaxy amounted to RMB380 million (equivalent to approximately HK$456 million) (2016: RMB350 million (equivalent to approximately HK$391 million) is included in other receivables set out in Note 28 and loan interest received from Shanghai Galaxy amounted to RMB17 million (equivalent to approximately HK$20 million) (2016: RMB20 million (equivalent to approximately HK$23 million)) is included in other receivables set out in Note 28.

(iii) In September 2016, 上海申渝公路建設發展有限公司 ("Shen-Yu Highway"), a bank and Shanghai Galaxy entered into an entrusted loan contract, pursuant to which Shen-Yu Highway entrusted the bank to grant a loan in the principal amount of RMB200,000,000 to Shanghai Galaxy (the "Previous Entrusted Loan Arrangement of Shen-Yu Highway").

In October 2017, Shen-Yu Highway, the Bank and Shanghai Galaxy entered into a new entrusted loan contract, pursuant to which Shen Yu Highway agreed to extend the Previous Entrusted Loan Arrangement of Shen-Yu Highway on substantially the same terms.

The entrusted loan was for a term of 12-month period from October 2017 to October 2018 (2016: twelve months commencing from September 2016). The interest rate of such loan was 4.64% (2016: 4.64%) per annum.

As at 31 December 2017, the loan provided to Shanghai Galaxy amounted to RMB200 million (equivalent to approximately HK$240 million) (2016: RMB200 million (equivalent to approximately HK$223 million) is included in other receivables set out in Note 28 and loan interest received from Shanghai Galaxy amounted to RMB9 million (equivalent to approximately HK$10 million) (2016: RMB2 million (equivalent to approximately HK$2 million)) is included in other receivables set out in Note 28.

(iv) The amounts due to the Xuhui SASAC and entities controlled by the Xuhui SASAC included in Note 31(ii)(a) are unsecured. An amount of HK$240,240,000 (2016: HK$118,356,000) included in the balances as at 31 December 2017 represents loan advanced from an entity controlled by the Xuhui SASAC through an entrusted loan agreement administrated by a bank, which carries fixed interest at 9% per annum (2016: 15%) per annum and are repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable on demand.

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

(I) Connected persons (Continued)

(b) Pursuant to an agreement dated 26 December 2002 and the supplemental agreements dated 15 December 2009 and 6 December 2012 entered into between Xuhui State-owned Assets Management Co. Ltd. ("State-owned Management Company") and Shanghai Urban Development Co., Ltd. ("Shanghai Urban Development"), a subsidiary of SI Urban Development (the "Cross Guarantee Agreement"), the parties thereto agree to guarantee each other's obligations in respect of certain loans/facilities obtained by them from time to time from banks or credit unions to the extent of not more than RMB1,200 million), and the limit has been reduced to RMB400 million from 1 January 2013 onwards. In respect of those guarantees which have already been entered into by State-owned Management Company and Shanghai Urban Development pursuant to the Cross Guarantee Agreement, they will continue until the underlying loans/facilities mature/expire and all amounts owed are fully repaid.

On 9 February 2015, the parties entered into a new supplemental agreement and the limit has been reduced to RMB332 million from 1 January 2016 to 31 December 2017.

During the year ended 31 December 2017, the financial guarantee provided by Shanghai Urban Development amounted to approximately RMB146 million (equivalent to approximately HK$163 million) to State-owned Management Company has been released as the underlying loans/facilities were fully repaid and settled. Shanghai Urban Development did not provide any further guarantee as there are no new loans/facilities obtained by State-owned Management Company. As at 31 December 2017, the total amount of loans/facilities obtained by State-owned Management Company was nil and the respective guarantee provided by Shanghai Urban Development was nil.

The provision of the aforesaid guarantees by Shanghai Urban Development constitutes non-exempt continuing connected transactions for the Company. Upon any variation of the Cross Guarantee Agreement, the Company shall then have the obligation to comply in full all applicable reporting, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

(c) In January 2016, the shareholders of Shanghai Galaxy passed a resolution to approve a capital increase of Shanghai Galaxy. As such, each of Hu-Ning Expressway and the other shareholder, SIIC Shanghai (Holdings) Co., Ltd., each holding 50% equity interest of Shanghai Galaxy, made an additional capital contribution of RMB150,000,000, respectively to Shanghai Galaxy without changing the shareholding.

(d) In June 2016, Hu-Ning Expressway and a bank entered into an entrusted loan entrustment contract, pursuant to which Hu-Ning Expressway agreed to entrust a sum of RMB100,000,000 with the bank which should provide loan(s) to designated borrowers upon instructions from Hu-Ning Expressway. On the same date, the bank and 上海上實金融服務控股有限公司 ("SIIC Financial Services"), a fellow subsidiary under SIIC entered into an entrusted loan contract (the "Previous Entrusted Loan Contract of Hu-Ning Expressway") in respect of the provision of the loan in the principal amount of RMB100,000,000 to be made pursuant to the Previous Entrusted Loan Contracts of Hu-Ning Expressway by Hu-Ning Expressway, through a bank, to SIIC Financial Services (the "Previous Entrusted Loan Arrangement of Hu-Ning Expressway").

In May 2017, Hu-Ning Expressway and the Bank entered into a new entrusted loan entrustment contract, pursuant to which Hu-Ning Expressway agreed to extend the Previous Entrusted Loan Arrangement of Hu-Ning Expressway on substantially the same terms for a future term of 12 months. On the same date, the Bank (as lender) and SIIC Financial Services (as borrower) entered into a new entrusted loan contract in respect of the provision of the loan in the principal amount of RMB100,000,000 by Hu-Ning Expressway, through the Bank, to SIIC Financial Services.

The entrusted loan was for a term of one year from the date of drawdown (2016: twelve months) and SIIC Financial Services should repay the principal upon the expiry of the term. The interest rate of such loan was 4.64% (2016: 4.64%) per annum.

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For the year ended 31 December 2017

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

(I) Connected persons (Continued)

(e) Hu-Ning Expressway and Shanghai Galaxy are existing shareholders of Wufangzhai. In October 2016, Hu-Ning Expressway entered into a share transfer agreement with an existing shareholder of Wufangzhai, pursuant to which Hu-Ning Expressway agreed to purchase 2,000,000 shares in Wufangzhai for a consideration of RMB56,000,000.

In May 2017, Hu-Ning Expressway entered into a share transfer contract with Shanghai Galaxy, pursuant to which Hu-Ning Expressway agreed to purchase from Shanghai Galaxy 5,675,000 shares in Wufangzhai for a total consideration of RMB162,764,700.

(f) On 28 April 2015, SI Development and 上海上投資產經營有限公司 ("Shanghai Assets"), a subsidiary of SIIC, entered into a share subscription agreement (the "First SI Development Share Issuance Contract"), pursuant to which SI Development agreed to issue, and Shanghai Asset agreed to subscribe for, 85,470,085 shares of SI Development, representing approximately 7.89% of SI Development's then total issued shares or 5.35% of the enlarged total issued shares, at an issue price of RMB11.7 per share for a consideration of RMB999,999,994.50. The consideration shall be payable by Shanghai Asset to SI Development in cash.

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

(g) On 28 April 2015, SI Development and an independent third party (the "Seller") entered into a share subscription agreement, pursuant to which SI Development agreed to issue and allot 20,000,000 ordinary shares in SI Development to the Seller, for a consideration of RMB234 million. The consideration shall be payable by the Seller to SI Development partly by 9,181,978 shares in Longchuang, being 19.13% of the equity interest in Longchuang and the balance in cash. On the same day, SI Development and certain other Longchuang shareholders entered into a share transfer agreement, pursuant to which the other Longchuang shareholders agreed to sell, and SI Development agreed to purchase, 42.35% equity interest in Longchuang for a consideration of RMB308,344,000. The consideration shall be payable by SI Development with funds raised from the issuance of new shares of SI Development by SI Development. Upon completion of the above-mentioned acquisition in January 2016, SI Development made capital contribution of RMB200 million to Longchuang. After such, SI Development altogether holds 69.78% equity interests in Longchuang.

(h) On 13 December 2017, 紹興上投置業發展有限公司 ("Shaoxing SIC Property"), a subsidiary of SI Development, entered into a sale and purchase agreement with 上海市上投房地產投資有限公司 ("Shangtou Real Estate"), a wholly-owned subsidiary of SIIC, pursuant to which Shangtou Real Estate agreed to sell and Shaoxing SIC Property agreed to acquire the property interest and the related interest in the project site which was located at the Pao Jiang Industrial Zone, Shaoxing City, Zhejiang Province (the "E1B Project Site"), including the land use right of the E1B Project Site and the building erected thereon known as Hua Cheng Mansion at a consideration of RMB187,000,000. The transaction was completed on 31 December 2017.

(i) At 31 December 2017, included in bank and other borrowings as set out in Note 33, a bank borrowing amounting to approximately RMB500 million (equivalent to approximately HK$601 million) (2016: RMB500 million (equivalent to approximately HK$558 million)) was secured by properties owned by the Group and a fellow subsidiary of the Group.

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

(I) Connected persons (Continued)

(j) Details of amounts due to certain fellow subsidiaries are set out in Note 31.

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

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

The Group accounts for all its business combinations involving entities under common control using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

(l) Details of the disposal of SUD Longcheng to a connected person are set out in Note 38.

(m) In December 2017, the Group acquired 80% interests in 上海上投商業資產管理有限公司 ("SSCAM") from a fellow subsidiary and an independent third party for considerations of RMB13,720,000 (equivalent to HK$15,821,000). SSCAM is principally engaged in investment and financing cooperation, commercial office and composite planning and analysis, property management and intelligence operation. As SSCAM is an entity under common control by SIIC, the Group accounted for this transaction using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. Further details of these transactions are set out in the Company's announcement dated 13 December 2017.

(II) Related parties, other than connected persons

In addition to the transactions set out in Note 44(I) above, the significant transactions with other related parties during the year, and significant transactions and balances with them at the end of the reporting period, are as follows:

Related parties	Nature of transactions and balances	2017 HK$'000	2016 HK$'000
Associates:			
Quanzhou Shanghai Investment (Note)	Interest income received by the Group	–	65,721
上海城開地產經紀有限公司 (Shanghai Urban Development Real Estate Agency Co., Ltd.)	Property agency fees paid by the Group	17,142	17,073
	Trade payables by the Group	5,771	50,371

Note: Quanzhou Shanghai Investment becomes a non-wholly owned subsidiary of the Group during the year, details set out in Note 37(I).

Details of amounts due from (to) associates are set out in Notes 28 and 31, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(III) Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Short-term benefits	25,068	28,712

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

45. MATERIAL TRANSACTIONS AND BALANCES WITH GOVERNMENT RELATED ENTITIES

The Group itself is part of a larger group of companies under SIIC, which is controlled by the PRC government. The directors consider that the Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predenominated by entities controlled, jointly controlled or significantly influenced by the PRC government. Apart from the transactions with SIIC, other connected persons and related parties disclosed in Note 44, the Group also conducts business with other government related entities in the ordinary course of business. In the opinion of the directors of the Company, these transactions are considered as individually and collectively insignificant to the operation of the Group. The directors consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

46. GOVERNMENT GRANTS

During the year ended 31 December 2017, government grants of approximately HK$55.4 million (2016: HK$50.6 million) were received from local government as compensation for the decrease of toll fee income on a discretionary basis. Business and other taxes refund from local tax authorities of approximately HK$245.4 million (2016: HK$141.6 million) were also received in the current year. Besides, an amount of approximately HK$125.6 million (2016: HK$40.7 million) was received as incentives for investments in certain provinces in the PRC. These amounts have been included in other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company/subsidiaries 2017	2016	Principal activities
SI Development (note i)	The PRC	A shares – RMB1,844,562,892	48.60%	48.60%	Property development and investment
SI Urban Development (note ii)	Bermuda/ The PRC	Ordinary shares – HK$192,461,000	69.96%	69.96%	Property development and investment
Shanghai Hu-Ning Expressway (note iii)	The PRC	RMB3,000,000,000	100%	100%	Holding of the right to operate a toll road
上海路橋發展有限公司 (Shanghai Luqiao Development Co., Ltd.) (note iii)	The PRC	RMB1,600,000,000	100%	100%	Holding of the right to operate a toll road
上海申渝公路建設發展有限公司 (Shanghai Shen-Yu Development Co., Ltd.) (note iii)	The PRC	RMB1,200,000,000	100%	100%	Holding of the right to operate a toll road
SIIC Environment (note iv)	The Republic of Singapore/ The PRC	Ordinary shares – RMB4,861,138,000	46.30% (Note 4)	37.57% (Note 4)	Sewage treatment and water supply
S.I. Infrastructure Holdings Limited ("S.I. Infrastructure")	The British Virgin Islands/ Hong Kong	Ordinary share – US$1	100%	100%	Investment holding
SIHL Treasury Limited ("SIHL Treasury")	Hong Kong	Ordinary shares – HK$2	100%	100%	Investment
Nanyang Tobacco (Marketing) Company, Limited	The British Virgin Islands/PRC and Macau	Ordinary shares – US$1 – HK$100,000,000	100%	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers Tobacco Company, Limited	Hong Kong	Ordinary shares – HK$2	100%	100%	Manufacture and sale of cigarettes
		Non-voting deferred shares (note vi) – HK$8,000,000	–	–	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. PRINCIPAL SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries at 31 December 2017 and 2016 are as follows: (Continued)

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company/subsidiaries		Principal activities
			2017	2016	
The Wing Fat Printing Company, Limited	Hong Kong	Ordinary shares – HK$83,030,000	94.29%	93.76%	Manufacture and sale of packaging materials and printed products
Tong Jie Limited ("Tong Jie")	The British Virgin Islands/ Hong Kong	Ordinary share – US$1	100%	100%	Issue of convertible bonds

Notes:

(i) This company is listed on the A Shares Market of the Shanghai Stock Exchange.

(ii) This company is listed on the Main Board of the Stock Exchange.

(iii) These companies were established in the PRC as wholly foreign owned enterprises.

(iv) This company is listed on the Mainboard of the SGX-ST.

(v) Except for S.I. Infrastructure, SIHL Treasury and Tong Jie, all the above subsidiaries are indirectly held by the Company.

(vi) None of the deferred shares are held by the Group. The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have practically no rights to dividends or to participate in any distributions on winding up.

(vii) Other than as disclosed in Note 35, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(viii) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

None of the subsidiaries had issued any debt securities at the end of the year except for those disclosed in Notes 33 and 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. PRINCIPAL SUBSIDIARIES (Continued)

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

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

Name of subsidiary	Place of incorporation/ principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
SI Development	The PRC	51.40%	51.40%	812,862	389,125	6,914,944	5,655,790
SI Urban Development	Bermuda/ The PRC	30.04%	30.04%	4,163	148,857	3,328,952	3,130,050
Shanghai Urban Development (Holdings) Co., Ltd. ("SUD")	The PRC	41%	41%	553,140	723,277	6,474,826	5,705,183
SIIC Environment	The Republic of Singapore/ The PRC	53.70% (Note 4)	62.43% (Note 4)	342,473	330,473	5,086,446	4,423,166
Individually immaterial subsidiaries with non-controlling interests				294,527	345,138	7,568,212	6,642,039
				2,007,165	1,936,870	29,373,380	25,556,228

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

	SI Development (Consolidated)		SI Urban Development (Consolidated, including SUD)		SUD (Consolidated)		SIIC Environment (Consolidated)	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Current assets	40,637,244	34,242,205	42,001,597	41,068,711	31,650,881	31,063,271	5,132,163	4,392,127
Non-current assets	8,951,836	6,276,806	19,397,974	17,621,519	4,926,471	4,812,388	25,964,561	21,613,963
Current liabilities	(21,806,731)	(16,888,495)	(19,777,223)	(17,904,272)	(12,193,426)	(12,677,521)	(8,076,856)	(7,755,573)
Non-current liabilities	(12,556,312)	(11,511,231)	(17,659,745)	(18,833,342)	(7,353,726)	(8,647,373)	(10,537,493)	(8,547,737)
Equity attributable to owners of the Company	7,268,354	6,053,545	10,206,102	9,393,261	9,317,432	7,557,395	5,381,634	3,376,571
Non-controlling interests	6,914,944	5,655,790	3,328,952	3,130,050	6,474,826	5,705,183	5,086,446	4,423,166
Non-controlling interests of Group's subsidiaries	1,042,739	409,950	10,427,549	9,429,305	1,237,942	1,288,187	2,014,295	1,903,043

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. PRINCIPAL SUBSIDIARIES (Continued)

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

	SI Development (Consolidated)		SI Urban Development (Consolidated, including SUD)		SUD (Consolidated)		SIIC Environment (Consolidated)	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Revenue	8,236,016	7,287,129	9,356,865	5,490,564	7,260,563	6,334,007	5,388,540	3,065,179
Profit for the year	1,634,873	952,161	823,715	1,299,317	1,380,129	1,830,780	725,470	619,660
Other comprehensive income (expense) for the year	(864,379)	398,967	591,512	(783,388)	972,371	(1,073,357)	274,894	(453,577)
Total comprehensive income for the year	770,494	1,351,128	1,415,227	515,929	2,352,500	757,423	1,000,364	166,083
Profit for the year attributable to the owners of the Company	768,582	367,927	130,194	345,783	795,982	1,040,814	211,517	189,471
Profit for the year attributable to the non-controlling interests	812,862	389,125	4,163	148,857	553,140	723,277	342,473	330,473
Profit for the year attributable to the non-controlling interests of Group's subsidiaries	53,429	195,109	689,358	804,677	31,007	66,689	171,480	99,716
Total comprehensive income (expense) for the year attributable to the owners of the Company	348,940	759,767	544,016	(346,421)	1,290,419	459,058	330,606	18,073
Total comprehensive income for the year attributable to the non-controlling interests	368,125	396,252	181,853	57,673	1,031,074	231,676	498,278	48,294
Total comprehensive income for the year attributable to non-controlling interests of Group's subsidiaries	53,429	195,109	689,358	804,677	31,007	66,689	171,480	99,716
Dividends paid to non-controlling interests	41,384	139,233	–	–	–	–	–	–
Net cash inflow (outflow) from operating activities	712,061	6,604,171	(267,965)	4,624,708	(277,249)	4,985,157	(1,340,519)	(98,270)
Net cash inflow (outflow) from investing activities	132,107	(3,201,610)	15,755	(1,437,422)	(70,478)	1,268,632	(554,574)	(217,980)
Net cash (outflow) inflow from financing activities	(2,116,927)	1,982,844	(373,171)	(969,876)	(1,449,395)	(2,229,487)	1,667,774	1,285,629
Net cash (outflow) inflow	(1,272,759)	5,385,405	(625,381)	2,217,410	(1,797,122)	4,024,302	(227,319)	969,379

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For the year ended 31 December 2017

48. PRINCIPAL JOINT VENTURES

Particulars of the Group's principal joint ventures at 31 December 2017 and 2016 are as follows:

Name of joint venture	Place of establishment/ operations	Percentage of registered capital attributable to the Group		Principal activities
		2017	2016	
Shanghai Galaxy	The PRC	50%	50%	Operation of photovoltaic related business in the PRC and provision of asset management services
General Water	The PRC	45%	45%	Joint investment and operation of water-related and environment protection business in the PRC

Notes:

(i) The above joint ventures are indirectly held by the Company and are accounted for as joint ventures because the subsidiaries of the Company and the joint venture partners have contractual arrangements to jointly control the strategic financial and operating policies pursuant to its Articles of Association.

(ii) The above table lists the joint ventures of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other joint ventures would, in the opinion of the directors, result in particulars of excessive length.

49. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2017 and 2016, which are all established in the PRC, are as follows:

Name of associate	Form of entity	Percentage of registered capital attributable to the Group		Principal activities
		2017	2016	
Shanghai Shentian	Sino-foreign joint venture	14.5% (note i)	14.5%	Property development
Hangzhou Bay Bridge	Sino-foreign joint venture	23.1% (note ii)	23.1%	Holding a right to operate a road bridge
Canvest Environmental	Limited liability company	14.52% (note iii)	–	Provision of municipal solid waste handling services and operation and management of waste-to-energy plants in the PRC

Notes:

(i) This is a 35% owned associate of SUD, in which the Group indirectly owns 59% equity interest through SI Urban Development, a 69.96% owned listed subsidiary.

(ii) In December 2016, the Group acquired 23.1% equity interest in Hangzhou Bay Bridge through the acquisition of a subsidiary, Yield Express. The Group accounted for this acquisition using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations".

(iii) As at 31 December 2017, the Group indirectly owns 14.52% equity interest through a wholly-owned subsidiary. The Group is able to exercise significant influence over Canvest Environmental as the Group is the second largest shareholder and has appointed a director to the board of Canvest Environmental and Canvest Environmental is accounted for as an associate using the equity method accordingly.

(iv) The above associates are indirectly held by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

49. PRINCIPAL ASSOCIATES (Continued)

Notes: (Continued)

(v) The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

50. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (i.e. the board of directors of the Company) for the purposes of resource allocation and performance assessment, are as follows:

Infrastructure facilities	–	investment in toll road projects and water-related business
Real estate	–	property development and investment and hotel operation
Consumer products	–	manufacture and sale of cigarettes, packaging materials and printed products

Infrastructure facilities, real estate and consumer products also represent the Group's reportable segments.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

For the year ended 31 December 2017

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
REVENUE					
Segment revenue – external sales	7,725,036	17,592,881	4,186,370	–	29,504,287
Segment operating profit (loss)	2,736,016	6,408,541	1,280,407	(101,874)	10,323,090
Finance costs	(589,281)	(1,113,496)	(3,819)	(74,733)	(1,781,329)
Share of results of joint ventures	231,361	421	–	–	231,782
Share of results of associates	166,622	217,597	5,829	–	390,048
Gain on derecognition/disposal of interests in associates	–	206,559	22,711	–	229,270
Segment profit (loss) before taxation	2,544,718	5,719,622	1,305,128	(176,607)	9,392,861
Income tax expense	(554,517)	(3,291,036)	(219,332)	(170,339)	(4,235,224)
Segment profit (loss) after taxation	1,990,201	2,428,586	1,085,796	(346,946)	5,157,637
Less: segment profit attributable to non-controlling interests	(456,850)	(1,534,780)	(15,535)	–	(2,007,165)
Segment profit (loss) after taxation attributable to owners of the Company	1,533,351	893,806	1,070,261	(346,946)	3,150,472

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For the year ended 31 December 2017

50. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2016

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

50. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

At 31 December 2017

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Segment assets	49,584,746	111,049,035	7,172,620	3,523,414	171,329,815
Segment liabilities	18,394,075	71,230,535	914,835	9,837,138	100,376,583

At 31 December 2016

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

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

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

Other segment information

2017

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment profit or loss or segment assets:					
Additions to non-current assets (note)	539,193	880,231	105,012	1,895	1,526,331
Depreciation and amortisation	1,158,833	168,167	209,283	2,087	1,538,370
Impairment loss on bad and doubtful debts	1,495	22,186	11,029	–	34,710
Reversal of impairment loss on bad and doubtful debts	(24,978)	(9,075)	(4,546)	–	(38,599)
Impairment loss on properties held for sale	–	280,519	–	–	280,519
Interests in joint ventures	3,794,747	66,652	–	–	3,861,399
Interests in associates	3,564,414	1,444,859	67,232	–	5,076,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

50. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

2016

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measurement of segment profit or loss or segment assets:					
Additions to non-current assets (note)	3,956,645	4,576,460	573,418	1,895	9,108,418
Depreciation and amortisation	1,026,168	163,811	196,827	1,488	1,388,294
Impairment loss on bad and doubtful debts	18,360	29,238	7,558	–	55,156
Reversal of impairment loss on bad and doubtful debts	(2,033)	(546)	(140)	–	(2,719)
Impairment loss on goodwill	–	–	38,235	–	38,235
Impairment loss on properties held for sale	–	224,631	–	–	224,631
Interests in joint ventures	3,401,783	65,814	–	–	3,467,597
Interests in associates	1,722,670	1,564,245	91,780	–	3,378,695

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

Geographical information

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

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

	Revenue from external customers	
	2017 HK$'000	2016 HK$'000
PRC	26,658,124	19,380,475
Asia areas, other than Hong Kong and the PRC	1,287,131	1,285,802
Hong Kong (place of domicile)	833,770	836,946
Other areas	725,262	628,535
	29,504,287	22,131,758

	Non-current assets (note)	
	2017 HK$'000	2016 HK$'000
PRC	54,412,311	46,683,032
Hong Kong (place of domicile)	1,410,199	1,502,576
	55,822,510	48,185,608

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

Information about major customers

No individual customer contributed to over 10% of the total revenue of the Group for both years.

51. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in Notes 33 and 34, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, repurchase of shares as well as the issue of new debt or the redemption of existing debt.

52. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
At fair value through profit or loss		
Held for trading	265,452	185,572
Designated as at FVTPL	217,593	10,131
Loans and receivables		
(including cash and cash equivalents)	58,125,710	53,050,934
Available-for-sale investments	796,723	1,201,348
Financial liabilities		
Amortised cost	64,455,861	54,326,580

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, financial assets at FVTPL, trade and other receivables, receivables under service concession arrangements, consideration receivables, pledged bank deposits, short-term bank deposits, bank balances and cash, trade and other payables, bank and other borrowings and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

52. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) *Currency risk*

The Group mainly operates in the PRC and Hong Kong and the exposure in exchange rate risks mainly arises from fluctuations in United States dollar, Hong Kong dollar and Renminbi exchange rates. The management monitors foreign currency exposure, especially in view of the current depreciation risk for Renminbi. The management will also consider hedging significant foreign currency exposure and adopting suitable measures where necessary in order to mitigate impacts due to the depreciation of the Renminbi to the Group.

The carrying amounts of the Group's monetary assets and monetary liabilities at the reporting date that are denominated in currencies other than the functional currency of the group entities ("foreign currency") are as follows:

	Assets		Liabilities	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Renminbi (against Hong Kong dollar)	144,800	98,184	2,079	3,353
United States dollar (against Hong Kong dollar and Renminbi)	1,567,057	931,344	1,819,092	2,573,436
Hong Kong dollar (against Renminbi)	54,837	579,992	380,082	15,185

The above foreign currency denominated monetary assets and monetary liabilities mainly represent the Group's trade and other receivables, pledged bank deposits, short-term bank deposits, bank balances and cash, trade and other payables and bank and other borrowings.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the functional currency of each group entity against the above foreign currency. 5% (2016: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 5% (2016: 5%) increase in foreign currency rates. The sensitivity analysis also includes inter-company balances where the denomination of balances are in currencies other than the functional currency of the respective group companies. A positive (negative) number below indicates an increase (a decrease) in profit after taxation where the above foreign currency strengthens 5% against the functional currency of each group entity.

	2017 HK$'000	2016 HK$'000
Increase in profit after taxation	83,575	60,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

52. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk

The Group's fair value and cash flow interest rate risks mainly relate to fixed and variable rates borrowings respectively. The Group's receivables under service concession arrangements, pledged bank deposits, fixed-rate amounts due from/to certain fellow subsidiaries/associates, loan to a joint venture, amount due from/to Xuhui SASAC and entities controlled by Xuhui SASAC, fixed-rate bank and other borrowings and convertible bonds have exposure to fair value interest rate risk due to the fixed interest rate on these instruments. The Group's bank balances and variable-rate bank and other borrowings also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate.

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable-rate bank balances and short-term bank deposits (collectively referred to as the "Bank Deposits") and variable-rate borrowings at the end of the reporting period. The sensitivity analysis does not consider the effect of interest expenses qualified for capitalisation.

For variable-rate borrowings and Bank Deposits, the analysis is prepared assuming that the amount of asset/liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point and 10 basis point (2016: 50 basis point and 10 basis point), respectively, increase or decrease are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rates had been 50 basis point and 10 basis point (2016: 50 basis point and 10 basis point) higher/lower for bank borrowings and bank deposits respectively, and all other were variables were held constant, the Group's profit after taxation for the year would decrease/increase by HK$168,382,000 (2016: HK$139,020,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate Bank Deposits and borrowings.

(iii) Price risk

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks on quoted equity investments held by the Group at the reporting date:

If the prices of the respective quoted equity instruments had been 5% (2016: 5%) higher/lower:

- profit after taxation for the year would increase/decrease by HK$16,264,000 (2016: HK$8,199,000) as a result of the changes in fair value of financial assets at FVTPL; and
- investment revaluation reserve would increase/decrease by HK$9,299,000 (2016: HK$20,515,000) as a result of the changes in fair value of available-for-sale investments.

52. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

As at 31 December 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties and financial guarantees provided is arising from the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in Note 41.

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

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made according to the Group's accounting policy where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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

The credit risk arising from receivables under service concession arrangements is limited as these receivables are guaranteed by the relevant governmental authorities in the PRC.

The credit risk arising from consideration receivables, which are due from a few counterparties, is limited after assessing the financial background of the counterparties.

The Group's concentration of credit risk by geographical locations of customers are mainly in the PRC and Hong Kong which accounted for 97% (2016: 91%) and 3% (2016: 9%), respectively, of the trade receivables as at 31 December 2017.

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

The Group has concentration of credit risk in relation to amounts due from associates which account for 51% (2016: 47%) of other receivables. These counterparties have a sound financial background at the end of the reporting period by reference to their financial position and business prospects. The Group's credit risk position is monitored closely by the management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

52. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

The Group's liquidity position are monitored closely by management. The following tables detail the contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2017 HK$'000
2017							
Non-interest bearing	–	3,695,315	1,214,905	5,463,946	1,328,056	11,702,222	11,702,222
Fixed interest rate instruments	4.15	35,641	101,208	3,965,018	7,029,339	11,131,206	10,129,371
Variable interest rate instruments	3.74	137,889	258,528	9,009,953	36,607,663	46,014,033	42,624,268
		3,868,845	1,574,641	18,438,917	44,965,058	68,847,461	64,455,861
Financial guarantee contracts		6,816,484	–	–	–	6,816,484	–

	Weighted average interest rate %	Less than 1 month or on demand HK$'000 (restated)	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2016 HK$'000
2016							
Non-interest bearing	–	1,740,465	974,501	4,333,183	1,096,221	8,144,370	8,144,371
Fixed interest rate instruments	4.90	18,819	35,817	2,083,652	2,766,331	4,904,619	4,541,353
Variable interest rate instruments	3.83	136,680	258,448	7,708,091	37,148,344	45,251,563	41,640,856
		1,895,964	1,268,766	14,124,926	41,010,896	58,300,552	54,326,580
Financial guarantee contracts		6,868,931	–	–	–	6,868,931	–

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurement of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

52. FINANCIAL INSTRUMENTS (Continued)

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable input
	31.12.2017 HK$'000	31.12.2016 HK$'000			
Available-for-sale investments					
Listed equity securities	185,986	410,300	Level 1	Quoted bid price in an active market	N/A
Investments held-for-trading					
Listed equity securities	265,452	185,572	Level 1	Quoted bid prices in an active market	N/A
Financial asset designated as at FVTPL					
Structured deposits – Fund linked notes	15,218	–	Level 2	Quoted prices in the over-the-counter markets	N/A
Corporate bond	125,077	10,131	Level 2	Quoted prices in the over-the-counter market	N/A
Fund	77,298	–	Level 2	Quoted prices in the over-the-counter market	N/A

There were no transfers amongst Levels 1, 2 and 3 in both years.

53. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other borrowings HK$'000 (note)	Interests payable HK$'000	Dividend payable HK$'000	Amount due to a related party HK$'000	Amounts due to fellow subsidiaries HK$'000	Total HK$'000
At 1 January 2017	46,149,487	208,259	–	118,356	1,086	46,477,188
Financing cash flows	2,080,322	(2,353,514)	(1,000,234)	117,993	182	(1,155,251)
Non-cash changes						
Dividend declared (Note 12)	–	–	1,000,234	–	–	1,000,234
Finance costs (including amounts capitalised in properties under development held for sale) (Note 7)	–	2,354,241	–	–	–	2,354,241
Acquisition of subsidiaries (Note 37(II))	69,757	–	–	–	–	69,757
Exchange difference	4,420,625	15,109	–	3,891	–	4,439,625
At 31 December 2017	52,720,191	224,095	–	240,240	1,268	53,185,794

Note: The cash flows from bank and other borrowings comprise the net amount of new bank and other borrowing raised and repayment of bank and other borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-Current Assets		
Property, plant and equipment	3,767	3,173
Investments in subsidiaries	735,055	735,055
	738,822	738,228
Current Assets		
Deposits, prepayments and other receivables	6,183	11,441
Amounts due from subsidiaries	34,501,832	31,567,853
Short term bank deposit	–	27,997
Bank balances and cash	1,304,177	1,263,246
	35,812,192	32,870,537
Current Liabilities		
Other payables and accrued charges	31,219	30,060
Amounts due to subsidiaries	5,202,684	3,789,522
Taxation payable	187,237	180,153
	5,421,140	3,999,735
Net Current Assets	30,391,052	28,870,802
Total Assets less Current Liabilities	31,129,874	29,609,030
Capital and Reserves		
Share capital	13,649,839	13,633,449
Share premium and reserves	17,480,035	15,975,581
Total Equity	31,129,874	29,609,030

Zhou Jun
Chief Executive Officer

Xu Bo
Deputy CEO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

55. SHARE PREMIUM AND RESERVES OF THE COMPANY

	Share options reserve HK$'000	Convertible bonds equity reserve HK$'000	Capital reserve HK$'000 (note ii)	Retained profits HK$'000	Total HK$'000
At 1 January 2016	27,883	175,728	1,137,728	14,013,307	15,354,646
Profit for the year	–	–	–	1,676,065	1,676,065
Issue of shares upon exercise of share options	(1,323)	–	–	–	(1,323)
Lapse of share options	(24,632)	–	–	24,632	–
Redemption of CB 2018 (Note 34)	–	(100,848)	–	–	(100,848)
Repurchase of CB 2018 (note 34)	–	(3,169)	–	38,663	35,494
Dividends paid (Note 12)	–	–	–	(988,453)	(988,453)
At 31 December 2016	1,928	71,711	1,137,728	14,764,214	15,975,581
Profit for the year	–	–	–	2,505,781	2,505,781
Issue of shares upon exercise of share options	(1,093)	–	–	–	(1,093)
Lapse of share options	(835)	–	–	835	–
Dividends paid (Note 12)	–	–	–	(1,000,234)	(1,000,234)
At 31 December 2017	–	71,711	1,137,728	16,270,596	17,480,035

Notes:

(i) The Company's reserves available for distribution to shareholders as at 31 December 2017 comprised of retained profits of approximately HK$16,271 million (2016: HK$14,764 million).

(ii) The Company's capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong was not realised profits and is an undistributable reserve.

FINANCIAL SUMMARY

	Year ended 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017 HK$'000**
RESULTS					
Revenue	21,567,724	21,333,017	19,693,682	22,131,758	29,504,287
Profit before taxation	4,833,753	6,990,055	5,762,985	7,499,270	9,392,861
Income tax expense	(1,389,533)	(2,632,812)	(2,071,025)	(2,659,370)	(4,235,224)
Profit for the year	3,444,220	4,357,243	3,691,960	4,839,900	5,157,637
Attributable to					
– Owners of the Company	2,702,418	3,096,256	2,826,764	2,903,030	3,150,472
– Non-controlling interests	741,802	1,260,987	865,196	1,936,870	2,007,165
	3,444,220	4,357,243	3,691,960	4,839,900	5,157,637
	HK$	HK$	HK$	HK$	HK$
Earnings per share					
– Basic	2.500	2.860	2.605	2.673	2.898
– Diluted	2.374	2.657	2.500	2.639	2.897

	As at 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017 HK$'000**
ASSETS AND LIABILITIES					
Total assets	122,410,025	140,014,121	144,700,693	151,248,175	171,329,815
Total liabilities	(70,030,211)	(86,538,870)	(89,407,443)	(88,775,658)	(100,376,583)
	52,379,814	53,475,251	55,293,250	62,472,517	70,953,232
Equity attributable to owners of the Company	34,946,024	35,271,483	36,031,634	36,916,289	41,579,852
Non-controlling interests	17,433,790	18,203,768	19,261,616	25,556,228	29,373,380
	52,379,814	53,475,251	55,293,250	62,472,517	70,953,232

PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of the Group's major properties held for investment purposes as at 31 December 2017 are as follows:

Location	Term of lease	Type of use	Group's interest
1. ShanghaiMart (上海世貿商城) No. 2299 Yanan Road West, Changning District, Shanghai, the PRC	Held under a land use right for a term expiring on 20 October 2049	Commercial, Office and Expo	35.68%
2. Urban Development International Tower (城開國際大廈) No. 355 Hongqiao Road, Xuhui District, Shanghai, the PRC	Held under a land use right for a term expiring on 7 October 2053	Commercial	41.28%
3. Villas of Contemporary Art Villas (當代藝墅) No. 1081 Gudai Road, Minhang District, Shanghai, the PRC	Held under a land use right for a term expiring on 14 March 2063	Residential	69.96%
4. YOYO Tower (城開YOYO) No. 111 and 123 Tianyaoqiao Road, Xuhui District, Shanghai. the PRC	Held under a land use right with an unspecified term	Commercial	41.28%
5. Phase 2 of Shanghai Youth City (上海青年城) No. 1519 Husong Road, Jiuting Town, Songjiang District, Shanghai, the PRC	Held under a land use right for a term expiring on 8 July 2055	Commercial	69.96%
6. Lot No. B2, Phase I of Top City (城上城) No. 1 Olympic Road, Yuanjiagang, Jiulongpo District, Chongqing, the PRC	Held under a land use right for a term expiring in February 2044	Commercial and Car Park Spaces	69.96%
7. The retail, office and basement car park portion of Changning United 88 (長寧八八中心) No. 88 Changning Road, Changning District, Shanghai, the PRC	Held under a land use right for a term expiring on 14 August 2052	Composite	48.60%
8. Several levels of Golden Bell Plaza (金鐘廣場) No. 98 Huahai Road Central, Huangpu District, Shanghai, the PRC	Held under a land use right for a term expiring on 18 November 2043	Commercial and Office	43.74%
9. Several levels of commercial and Cultural Complex of Hi Shanghai (海上海) Lane 568 Feihong Road and Nos. 950, 970 and 990 Dalian Road, Yangpu District, Shanghai, the PRC	Held under a land use right for a term expiring on 19 September 2052	Composite	48.60%
10. Commercial units of Huangpu Estate (黃浦新苑) No. 1130 and Nos. 1-2, Lane 1108, Tibet Road South, Huangpu District, Shanghai, the PRC	Held under a land use right for a term expiring on 8 November 2050	Commercial	48.60%
11. Several levels of Shanghai Industrial Investment Building (上海實業大廈) No. 18 Caoxi Road North, Xuhui District, Shanghai, the PRC	Held under a land use right for a term expiring on 28 November 2044	Commercial and Office	48.60%

PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Location	Term of lease	Type of use	Group's interest
12. Gaoyang Commercial Centre（高陽商務中心） No. 815 Dongdaming Road, Hongkou District, Shanghai, the PRC	Held under a land use right for a term expiring on 5 March 2053	Commercial and Office	48.60%
13. Blocks 1-9, Shanghai United Wool Wearing Factory （上海聯合毛紡織廠） No. 1111 Shangchuan Road, Pudong New District, Shanghai, the PRC	Held under a land use right for a term expiring on 6 March 2056	Industrial Building	48.60%

GLOSSARY OF TERMS

Term used	Brief description
Canvest Environmental	Canvest Environmental Protection Group Company Limited (HKSE stock code: 1381)
CITIC Envirotech Water	CITIC Envirotech Water Resource (Hegang) Co., Ltd.
Companies Ordinance	Companies Ordinance (Chapter 622) of the laws of Hong Kong
Company	Shanghai Industrial Holdings Limited (HKSE stock code: 363)
Cowork Internet	Guangzhou Cowork Internet Technology Co., Ltd.
Cowork Technology	Guangzhou Cowork Technology Co., Ltd.
Director(s)	director(s) of the Company
Galaxy Energy	SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd.
General Water of China	General Water of China Co., Ltd.
Group	the Company and its subsidiaries
Hu-Ning Expressway	Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd.
Jiaohe Jiaxin Water	Jiaohe Jiaxin Water Co., Ltd.
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Longjiang Environmental	Longjiang Environmental Protection Group Co., Ltd.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules
Mori Building Shanghai	Mori Building China (Shanghai) Co., Ltd.
Nanyang Tobacco	Nanyang Brothers Tobacco Company, Limited
Net Business Profit	Net profit excluding net corporate expenses
NR Investment	Shanghai Real Estate Northern Region Investment Development Company Limited
Pinghu Dushan Sewage	Pinghu Dushan Sewage Treatment Co., Ltd.
PRC	The People's Republic of China
SFO	Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong
SGX	Singapore Stock Exchange
Shanghai Galaxy	Shanghai Galaxy Investment Co., Ltd.
Shanghai Hongsheng	Shanghai Hongsheng Investment Development Co., Ltd.
Shanghai Shangtou	Shanghai Shangtou Real Estate Investment Company Limited

GLOSSARY OF TERMS

Term used	Brief description
Shanghai Urban Development	Shanghai Urban Development (Holdings) Co., Ltd.
Shenda Property	Shanghai Shenda Property Company Limited
SHK Properties	Sun Hung Kai Properties Limited
SI Development	Shanghai Industrial Development Co., Ltd. (SSE stock code: 600748)
SI Urban Development	Shanghai Industrial Urban Development Group Limited (HKSE stock code: 563)
SI Urban Development Scheme	A share option scheme adopted by SI Urban Development at the extraordinary general meeting held on 12 December 2002. Such scheme was expired on 11 December 2012
SI Urban Development New Scheme	A new share option scheme adopted by SI Urban Development at the annual general meeting held on 16 May 2013
SIHL Scheme	A share option scheme adopted by the Company at the extraordinary general meeting held on 31 May 2002. Such scheme was terminated at the extraordinary general meeting of the Company held on 25 May 2012
SIHL New Scheme	A new share option scheme adopted by the Company at the extraordinary general meeting held on 25 May 2012
SIIC	Shanghai Industrial Investment (Holdings) Company Limited
SIIC Environment	SIIC Environment Holdings Ltd. (SGX stock code: BHK; HKSE stock code: 807)
SIIC Environment Scheme	A share option scheme adopted by SIIC Environment at the extraordinary general meeting held on 27 April 2012
SSCAM	Shanghai Shangtou Commercial Asset Management Co., Ltd.
SSE	Shanghai Stock Exchange
Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited
SUD Commercial	Shanghai Urban Development Commercial Property Development Company Limited
Weplus Technology	Weplus (Shanghai) Technology Co., Ltd.
Wing Fat Printing	The Wing Fat Printing Company, Limited
Wufangzhai	Zhejiang Wufangzhai Industrial Co., Ltd.

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