上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)

領先未來 · 跨越高峰

LEADING THE FUTURE

ANNUAL REPORT 2018

CONTENTS

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

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COMPANY STOCK CODE

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

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AUDITOR

Deloitte Touche Tohmatsu

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BNY Mellon Shareowner Services
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INFORMATION FOR SHAREHOLDERS

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Investor Relations

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Tricor Secretaries Limited

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Our Website

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

DIVIDEND

Proposed 2018 final dividend of HK52 cents per share (2017: HK48 cents per share) will be paid to shareholders on or about Wednesday, 12 June 2019 subject to shareholders' approval.

Subject to approval by shareholders of the final dividend and together with the 2018 interim dividend of HK48 cents per share (2017: HK46 cents per share) paid during the year, total dividends for the year will be HK$1 per share (2017: HK94 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, 14 May 2019 to Wednesday, 15 May 2019, 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 Friday, 10 May 2019.

For the purpose of determining shareholders' entitlement to the final dividend, the register of members of the Company will be closed on Wednesday, 29 May 2019. 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 Tuesday, 28 May 2019.

FINANCIAL CALENDAR

2018 interim results announced	29 August 2018
2018 final results announced	28 March 2019
Despatch of 2018 annual report	on or about 17 April 2019
2019 annual general meeting	23 May 2019
Ex-dividend date for 2018 final dividend	27 May 2019
Record date for 2018 final dividend	29 May 2019
Despatch of notice of 2018 final dividend	on or about 12 June 2019

CHAIRMAN'S STATEMENT

Shen Xiao Chu
Chairman

I am pleased to report to our shareholders the Group's results for the year 2018.

In 2018, international trade disputes intensified; the global equity market remained volatile and interest rate levels continued to rise. Against this scenario, the Group has made a concerted effort to overcome these issues under the leadership of the Board of Directors and the executive team to further improve operational efficiency and enhance internal control. During the year, it is encouraging to note that the Group maintained stable growth for its core business segments and achieved major breakthroughs in new business arenas. In addition, the Group capitalised on market opportunities and successfully completed a number of major projects, creating a strong foundation for its long-term development.

For the year ended 31 December 2018, the Group's net profit amounted to HK$3,333 million, representing a year-on-year increase of 6.3% over last year. A revenue of HK$30,413 million was recorded, representing a year-on-year increase of 3.0%.

The Board of Directors has recommended a final dividend of HK52 cents per share (2017: HK48 cents per share) for 2018. Subject to shareholders' approval and together with an interim dividend of HK48 cents per share (2017: HK46 cents per share) paid during the year, total dividends for the year will be HK$1 per share (2017: HK94 cents per share).

During the year, the Group's three core businesses continued to grow with steady performance. In particular, the management for the toll road and bridge business has been further strengthened with increasing profit growth and stable cash flows. For the water and environmental protection business, investments were made in sewage treatment, solid waste and other environmental protection-related projects that are in line with the Group's development plans. Continued efforts were made to integrate assets and different business areas and to further refine management. As at the end of the year, the infrastructure facilities business recorded a profit of HK$1,749 million, representing a year-on-year increase of 14.0%, while a number of quality assets acquired by the toll road and water services businesses in recent years began to make a positive profit contribution to the Group, further enhancing the profitability of its core businesses.

For our real estate business, given that the Company holds 49% interest of the Shanghai Bay project under SI Development, the profit shared by it on the booked revenue from properties delivered during the year contributed to the profit growth of the segment, increasing the profit of the business segment by 27.2%.

The consumer products business continued to grow and develop steadily, stepping up product transformation and introducing innovations and technology upgrades for its production during the year which resulted in stable profits and cash flows for the Group. Net profit amounted to HK$1,076 million, rising 0.6% compared to the previous year.

Effective operation in the capital market and successful implementation of key projects

In March 2018, SIIC Environment successfully completed its dual primary listing on the main board of the Hong Kong Stock Exchange, further reinforcing the liquidity of its shares, expanding its investor base, and enhancing market recognition for the benefit of its long-term development.

Upon completing the acquisition from SIIC Environment of the 56,593,000 shares it held in Canvest Environmental, the Company further acquired 73,660,000 shares in the entity in December 2018 from an external fund company at a value of HK$3.92 per share. Such investment amounted to HK$289 million. Immediately following the completion of the transaction, the Company holds a total of approximately 17.52% equity interest in Canvest Environmental, a leading enterprise in waste incineration and thermal power generation. The increase in shareholding further strengthens the long-term development of the Group's solid waste business segment.

Acting as cornerstone investors, both the Company and Shanghai Pharmaceuticals subscribed in June 2018 for CIRC's new shares listed on the Hong Kong Stock Exchange at approximately HK$257 million and HK$173 million respectively, representing an approximate 3.7% and 2.5% of the total enlarged share capital of CIRC, enabling the Group to enter the nuclear medicine industry that has steady and potential growth.

In July of the same year, Shanghai Jiyun, a wholly-owned subsidiary of the Company, contributed a registered capital of RMB200 million to establish SI Clean Energy with Shangtou Asset and Shanghai Galaxy by way of a joint venture, and through this company as the investment entity, injected capitals to Green Energy, as to 30% of equity interests for investments in the offshore wind power stations industry.

Refining management of the infrastructure business to improve asset quality and earnings growth

During the year, the segment's three quality expressways and Hangzhou Bay Bridge continued to provide stable profit and cash flow to the Group. Through careful planning, the Group successfully completed a number of road maintenance projects to ensure smooth traffic for the first China International Import Expo (CIIE) which was held in Shanghai in November 2018. An overall increase in toll revenue and traffic flow was recorded, boosted by a growing number of cars and tourist traffic. In addition, considerable efforts were made during the year to prevent road congestions and ensure smooth traffic flow. These measures included enhanced management standards, improved road maintenance, strengthened monitoring and control and improved operational efficiency, all of which effectively helped to resolve peak traffic flow issues during major holidays and events.

In accordance with plans, the Group continued to expand the asset size of its water and environmental protection business and improve asset quality and profitability, further reinforcing SIIC Environment's position as a leading environmental protection enterprise in the PRC. SIIC Environment's daily water treatment capacity amounted to 11,743,000 tonnes, and together with General Water of China, the daily water treatment capacity reached 18,542,000 tonnes.

Through Shanghai Galaxy and Galaxy Energy, the Group owns 12 photovoltaic power generation projects nationwide with a total asset scale of approximately 580MW. 819 million kWh of on-grid electricity was sold during the year, representing a year-on-year increase of 15.3%. While pursuing other potential acquisitions, Galaxy Energy will continue to refine the management of its existing projects to enhance efficiency.

Streamlining asset structure and consolidating market value for real estate business

In 2018, the Group's real estate business achieved contract sales of RMB10,407 million. Considerable efforts were made by our real estate enterprises to improve operational development, increase sales and promote emerging businesses. In accordance with its strategy to streamline asset structure and to integrate real estate business, the Group continued to revitalise its assets and focus its resources on the development of its core businesses. In addition, the Group further strengthened management of existing properties and enhance operational efficiency for its commercial assets.

CHAIRMAN'S STATEMENT

The transition of the management for SI Urban Development during the year has been smooth and successful. In early 2018, SI Urban Development successfully acquired a 100% equity interest in Shangtou Real Estate and a 35% equity interest in NR Investment for approximately RMB531 million and RMB88.34 million respectively. During the year, land parcels in Shanghai's Xuhui and Minhang Districts were successfully bid for approximately RMB456 million and RMB649 million respectively. Going forward, focus will be made for the development of its business in the Yangtze River Delta area as well as first-and second-tier core cities.

SI Development acquired the entire equity interest in Shenda Property and SUD Commercial from SI Urban Development to consolidate its property management business, enabling it to integrate management and control of its property management business with the four companies which it acquired. With these acquisitions, the company's property management portfolio reached 23,000,000 square metres, significantly lifting its competitive position in the market. During the year, the Phase III project of the International Beer City under SI Development officially commenced. The development consists of a super high-rise landmark building of 201.8-metre twin towers. In February 2019, SI Development made successful bids for two residential land parcels in Baoshan District, Shanghai, at RMB2,819 million, with a total area of 58,700 square metres.

Stepping up innovation and transformation and improving efficiency and asset structure for consumer products business

During the year, Nanyang Tobacco made considerable efforts to diversify its products and develop heterotypic cigarette lines through the adoption of advanced production equipment, representing technologies that are at the forefront of the global industry. With the introduction of a versatile processing line that produces a variety of cigarette specifications and multiple packaging forms, the company is now able to rapidly change specifications for the manufacturing of a variety of products in response to market trends. Nanyang Tobacco also continues to research new composite technologies for innovative tobacco products.

In view of severe internal and external changes and challenges during the year, Wing Fat Printing implemented plans to balance the development of its principal business and stepped up its efforts to promote product innovation and enhance management. Steady growth has been made with increased revenue and profit recorded for both the printing and packaging and the moulded-fibre businesses.

PROSPECTS

The internal and external economic environment is expected to continue to present new challenges to the Group in 2019. In light of this, we are committed to follow through with our strategic targets for the whole year, further strengthen our risk management, optimize our business structure, improve operational efficiency and deliver quality operations for the sustainable development of the Group.

CHAIRMAN'S STATEMENT





As for infrastructure facilities, the division will continue to maintain its growth momentum. The water and environmental protection business will further enhance operational management, expand the size of its investment gradually, and explore new opportunities for continued growth. For toll roads, with consistent improvement in quality operation and management, we will strive to control costs, increase efficiency and maintain stable profit growth. For new business arenas, we will continue to invest in photovoltaic power generation and explore developments in clean energy such as offshore wind power generation to create new drivers for the Group's profitable growth.

In the real estate business, the Group will continue to refine its management structure and strengthen quality control. The overall risks of the Group will be more closely monitored and a positive and flexible marketing strategy will be adopted to accomplish sales and profit targets. We will continue to improve our asset structure and project planning, further enhance the management of our commercial assets and profit contribution, seize market opportunities and revitalise existing assets as opportunities arise. Focus will be made on developing core businesses, optimizing debt and capital structures, and seeking appropriate investment opportunities as they arise.

Nanyang Tobacco will continue to carry out product innovation and development to maintain its sales and profitability. It will explore potential for new development, upgrade production facilities and retain its favorable position in the sector. Wing Fat Printing will strengthen balanced development of its packaging business focused on cigarette and wine packaging, as well as its new moulded-fibre business, and continue to enhance its operational and management abilities, exerting full strength on business transformation.

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 2019

SIHL AT A GLANCE

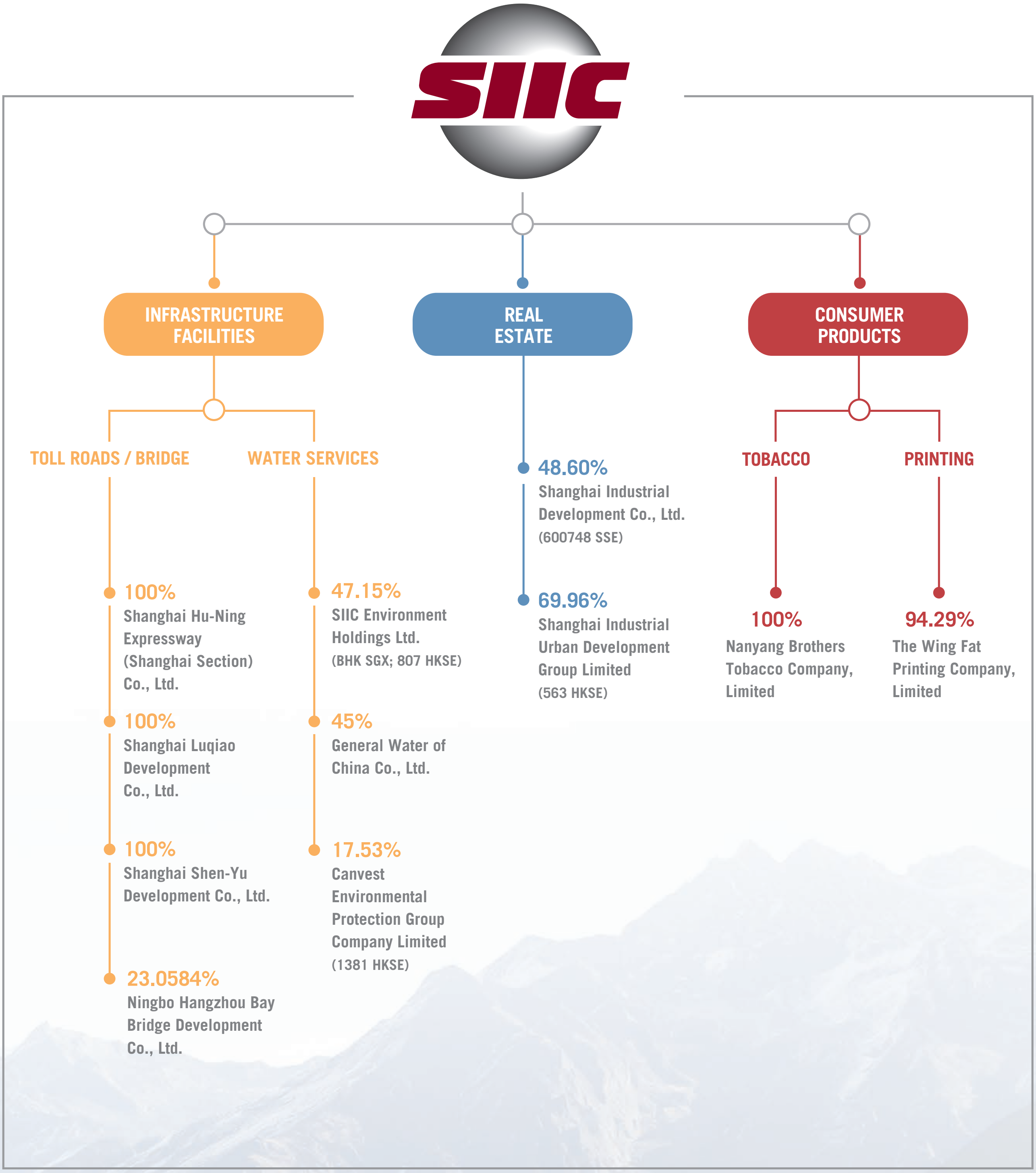
Shanghai Industrial Holdings Limited ("SIHL", HKSE Stock Code: 363) was incorporated in Hong Kong in January 1996, and on 30 May of the same year was listed on the Stock Exchange of Hong Kong. SIHL is a constituent stock of the MSCI China Index and Hang Seng Composite Index, and an eligible stock of Shanghai-Hong Kong Stock Connect. As at the end of 2018, the company's total assets reached HK$167.4 billion and profits attributable to shareholders were HK$3.333 billion.

Shanghai Industrial Investments (Holdings) Company Limited ("SIIC"), the controlling shareholder with about a 59.99% 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 stakeholders, striving to create favourable returns and value for shareholders.

GROUP BUSINESS STRUCTURE

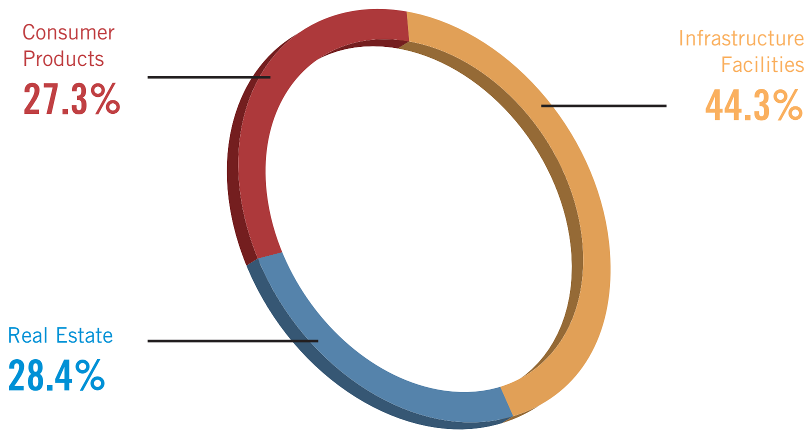
As at 28 March 2019



BUSINESS REVIEW, DISCUSSION AND ANALYSIS

For the year ended 31 December 2018, the Group's audited revenue amounted to HK$30,413 million, representing a year-on-year increase of 3.0%. Profits attributable to shareholders were HK$3,333 million, representing a year-on-year increase of 6.3%. The profits were attributable to the Group's core business segments, all of which achieved stable growth with improving results performance and solid progress for major projects. During the year, the Group continued to streamline its financial structure, achieve major breakthroughs in new business arenas and enhance shareholders' value.

Profit contribution from the Group's core business



INFRASTRUCTURE FACILITIES

The infrastructure facilities business recorded a profit of HK$1,749 million for the year, representing an increase of 14.0% over last year and accounting for 44.3% of the Group's Net Business Profit. Adopting a quality management and operation model, the toll roads business generated stable profits and cash flows for the Group. The water and environmental protection business also further enhanced its management and operation, and continued to expand its investment scale systematically to maintain growth momentum.

Toll roads/bridge

The three toll roads and Hangzhou Bay Bridge under the Group recorded overall growth in toll revenue and traffic flow. During the year, road and traffic conditions remained smooth and stable while road safety continued to be maintained. In anticipation of the first China International Import Expo (CIIE) held in Shanghai in November 2018, the Group implemented well thought-out plans to ensure smooth traffic flow for the respective roads and expressways during the event, and to carry out construction works and other specific assignments that were required to ensure efficiency at toll sections and provide quality services for the event.

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$376 million	+1.2%	HK$749 million	+5.7%	60.57 million	+5.0%
Hu-Kun Expressway (Shanghai Section)	100%	HK$465 million	+4.4%	HK$1,110 million	+2.4%	58.17 million	+0.3%
Hu-Yu Expressway (Shanghai Section)	100%	HK$211 million	+1.0%	HK$628 million	+4.4%	41.43 million	-2.2%
Hangzhou Bay Bridge	23.0584%	HK$144 million	+19.9%	HK$1,942 million	+6.6%	14.09 million	+5.6%
Total		**HK$1,196 million**	**+4.3%**	**HK$4,429 million**	**+5.1%**	**174.26 million**	**+1.6%**

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In 2018, the traffic flow and toll revenue for Jing-Hu Expressway (Shanghai Section) continued to maintain its growth compared to last year, benefitting from rising motor vehicle parc. As a key thoroughfare for the CIIE this year, a number of tasks have been carried out to ensure the smooth operation, safe environment and quality of service for the Jing-Hu Expressway (Shanghai Section), including allocation of duty rosters and strengthening of supervision work. All these plans and projects were completed on time. Since September 2018, the project company has organized themed activities for the event, and has maintained high service standards for its collection counters. In view of frequent changes in traffic volume at toll lanes, the project company has taken different effective measures during the year to ensure safe and smooth traffic flows. The diversion works of traffic flow for passenger cars and trucks at the Anting toll station was completed in September and the station has been put into service. Traffic conditions during peak hours were effectively improved.

The toll revenue for Hu-Kun Expressway (Shanghai Section) maintained at almost the same level as last year with steady traffic flow of vehicles. This was somehow affected by slower economic activities over weekends, stagnating truck traffic due to structural adjustments in various industries in the central and surrounding areas brought by the macroeconomic factors as well as such unfavorable factors as an increasing number of days affected by typhoon and fog and other adverse climate conditions during the year. The project company also carried out a variety of construction and maintenance works specifically for CIIE in parallel with the annual road maintenance plans. Efforts were made to improve toll counter services. The Fengjing toll station was ranked as one of the "20 Best Toll counters" in Shanghai under the municipal promotion theme of "Welcome to CIIE, demonstrating quality counter services and building up Shanghai service brands".

The annual traffic flow for the Hu-Yu Expressway (Shanghai Section) dropped during the year as a result of the resumption of toll collection for vehicles between the Xujing station and Jiasong station and the closure of the temporary toll-free ramps at Huting North Road in July 2017. The decline was also due to the opening of the Shenhai Expressway and the inauguration of metro No. 17 in Shanghai. Adverse weather conditions such as frequent snow and fog also led to the decline, but toll revenue continued to maintain growth. In support of the CIIE held in Shanghai, more than 10 construction works were carried out and all of them were completed on time and in terms of quality and work volume. In September, the project company further intensified its competition programs advocating smiling toll services and enhanced quality service and efficiency. During the year, the information and intelligence capability for

its road control system was also strengthened. Phase I of the project commenced with trial operation beginning at the end of 2018. At the same time, traffic changes were monitored from time to time following the upgrading of the Xujing toll square and the opening of the Jiudu toll station. This has helped improve traffic congestions and ensure smooth road conditions in a timely manner, greatly enhancing traffic capacity at the Xujing toll station.

In 2018, the traffic flow and toll revenue for the Hangzhou Bay Bridge maintained satisfactory growth, 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. By adopting Grade 1 bridge-building technology, the Hangzhou Bay Bridge boasted a safe structure. During the year, both the south-shore and north-shore service areas on the bridge were selected as the "National Top 100 Demonstration Service Areas" and "five-star Serivce Area" in the Zhejiang Province. Haitian Island was highly commended as a 4A scenic area having passed the second review by national authorities. During the year, the project company developed a comprehensive intelligent system and accomplished more than half of the upgrading work for the installation of a high density surveillance control within the bridge area. The project included technological and transformation work such as improvement of the integrated operation and management system, the establishment of application programs for joint service force, the enhancement of service card information collection and adaptable viewable data. The application of such digital-wise systems was completed during the year and was proved to be effective.

Water services

During the year, the Group continued to invest in the sewage treatment and solid waste projects as well as other environmental protection-related fields, and continued to seek quality acquisition projects with strategic significance.

Following the completion of the acquisition from SIIC Environment of the 56,593,000 shares it held in Canvest Environmental, the Company, through True Victor, a wholly-owned subsidiary, further acquired 73,660,000 shares in the entity at a price of HK$3.92 each from an external fund company in December 2018, increasing its shareholding by 3%. Such investment amounted to HK$289 million, and the transaction was completed by the end of the year. Immediately after the completion of the transaction, the Group held approximately 17.52% equity interests in Canvest Environmental. In addition, the acquisition is expected to open up more business co-operations in a variety of aspects, thereby strengthening the overall development of the Group's solid waste business segment.

SIIC Environment

SIIC Environment successfully completed the dual primary listing in the Hong Kong Stock Exchange by way of introduction on 23 March 2018 (stock code: 807), bringing about further interactions between Singapore and Hong Kong investors.

In 2018, SIIC Environment recorded a revenue of RMB5,313 million, representing a year-on-year growth of 14.5%. The increase in revenue was mainly attributable to the newly constructed BOT (build-operate-transfer) projects during the year which resulted in increases for urban EPC (engineering, procurement and construction) revenue and also from higher revenues from increased water supply. After deduction of related listing expenses, profit for SIIC Environment for the full year recorded a year-on-year growth of 0.9% to RMB540 million, mainly due to profits attributable to the newly acquired enterprises and profit contributed by existing enterprises, in particular from the increased revenue of service concession arrangements and higher service income.

During the year, SIIC Environment expanded its projects continuously, including the following items: (1) it successively won bids and acquired more than 10 projects, such as the sewage PPP project in Beihai, Guangxi, sewage treatment projects in Yingcheng, Jiutai district, Changchun and in Karun, a PPP project for comprehensive sewage enhancement in Hulan District and the sewage treatment project in Fengxin's industrial park, Jiangxi; (2) it implemented the upgrading and expansion projects in Shenzhen, Hangzhou Bay and Chenzhou, the emission standard of which has basically been enhanced to Grade 1A or higher, out of which the sewage treatment plant in Pudixia, Shenzhen met the rare surface water quality standard category III in the country, establishing a remarkable benchmark in the industry.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In December, SIIC Environment acquired the sewage treatment project in Xinglong Town, Bayan County, Heilongjiang, the PRC with a total investment of RMB54.60 million for a franchise period of 30 years. The planned area for the project is 32,000 square metres with Grade 1A water discharge standard, and water content in sludge is less than 60%. In future, the capacity of the plant will be increased from the current daily capacity of 10,000 tonnes to 40,000 tonnes. In the same month, SIIC Environment Dalian, a 95.65% owned subsidiary signed a supplementary franchise agreement for three sewage treatment projects located in the Puwan New District, including (1) the Liujia sewage treatment plant project with a planned daily capacity of 10,000 tonnes; (2) Sanshilipu sewage treatment plant project, with Grade 1A water discharge standard and a planned daily capacity of 20,000 tonnes; and (3) Houhai sewage treatment plant project, with Grade 1A water discharge standard and a planned daily capacity of 20,000 tonnes.

In January 2019, Fudan Water, a 92.15% owned subsidiary, signed a BOT franchise agreement in relation to the construction and development of a waste incineration BOT project for approximately RMB600 million, with a franchise period of 30 years (excluding the construction period). The project will be built in the Recycled Economic Industrial Park in Shen County, Shandong, with a total planned daily capacity of 1,200 tonnes. The first phase of investment is approximately RMB360 million, with a planned daily capacity of 700 tonnes. Grate incinerator technology will be employed to convert waste to energy to generate electricity for the Shen County, Shandong. In the same month, Fudan Water signed an operation and management agreement for the Cixi North City sewage treatment project and entrusted management procument project for constructed wetlands. The agreement is for a period of two years, with an option to extend for another year. The project is located at Hangzhou Bay New Zone, Ningbo, Zhejiang, the PRC, and the discharge standard of the sewage treatment plant project is Grade 1B standard, with a total planned daily capacity of 100,000 tonnes, while the discharge standard of the constructed wetland is Grade 1A standard.

In January 2019, SIIC Environment Dezhou, a subsidiary owned as to 75.5% by SIIC Environment, signed a TOT (Transfer-Operation-Transfer) supplementary agreement. The total investment amount of the project is approximately RMB46.42 million. It is an upgrading project for the sewage treatment plant in Dezhou, Shandong, the PRC, and the discharge standard is to be upgraded from Grade 1B to Grade 1A standard. The franchise period was extended from 20 years to 30 years.

General Water of China

General Water of China recorded net profits of HK$231 million for 2018 with a year-on-year increase of 34.1%. Revenue amounted to HK$2,279 million, a year-on-year increase of 14.8%. As at the end of 2018, General Water of China owned 30 water supply facilities and 28 sewage treatment plants with a total daily capacity of 6,800,000 tonnes, among which, the total water production daily capacity was 4,362,000 tonnes and daily sewage treatment capacity was 2,437,500 tonnes, and two reservoirs with a gross storage tank volume of 182,320,000 tonnes and a pipe network of 6,030 kilometers in total. General Water of China has been awarded one of the Top 10 Most Influential Enterprises in China's Water Industry for the 15th consecutive year, ranking the fifth.

During the year, the company actively developed new regional markets nationwide, strengthened its interactions with clients and market penetration, and actively explored the capital market. In addition, it continued to optimize its corporate capital structure and deepen enterprise standardization management in order to promote the quality and efficiency and sustainable and healthy development of the company. During the year, the development model to expand the regional integrated market was improved continually. Related work in Bengbu and Huzhou were actively pushed forward and good results were seen in Xiangtan and Shenzhen.

In April, the expansion and alteration construction project for the sewage treatment plant in eastern Wenzhou passed the completion examination. The daily capacity of the project was upgraded from 100,000 tonnes to 150,000 tonnes, and the discharge standard was upgraded from Grade 2 GB18918-2002 standard to Grade 1A standard, contributing to the emission reduction in Longwan District, Wenzhou. In June, the Wuhua mountain reservoir and hydropower station in Suifenhe commenced on-grid power generation, which was the first hydropower generation project for General Water of China. In November 2018, the handover and alteration project for water diversion for the Jiangnan Group commenced, serving 12,066 users, aiming at completion of the alteration work by the end of August 2019.

Details of the water development projects under the Group as at 31 December 2018 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 project in Hefei Chemical Industrial Park	Sewage treatment	30,000	60%	The project is in operation.
2	Auhui	Phase I of sewage treatment plant project in southern Lingbi	Sewage treatment	25,000	46.4%	The project is in operation.
3	Auhui	Phase II of sewage treatment plant project in southern Lingbi	Sewage treatment	25,000	46.4%	The project is in operation.
4	Auhui	Sewage treatment plant project in northern Lingbi	Sewage treatment	20,000	46.4%	The project is under construction.
5	Auhui	Phase I of reclaimed water project of sewage treatment plant in southern Lingbi	Reclaimed water treatment	25,000	46.4%	The project is yet to commence construction.
6	Fujian	Phase I of sewage treatment plant BOT project in Longmen Town, Anxi	Sewage treatment	12,500	100%	The project is in operation.
7	Fujian	Phase II of sewage treatment plant BOT project in Longmen Town, Anxi	Sewage treatment	12,500	100%	The project is yet to commence construction.
8	Fujian	Sewage treatment plant BOT forward project in Longmen Town, Anxi	Sewage treatment	25,000	100%	The project is yet to commence construction.
9	Guangdong	Sewage treatment plant BOT project in Dalang, Dongguan	Sewage treatment	100,000	75.5%	The project is in operation.
10	Guangdong	Phase I of sewage treatment plant BOT project in Shayao, Shijie, Dongguan	Sewage treatment	60,000	75.5%	The project is in operation.
11	Guangdong	Phase II of sewage treatment plant in Yantian, Fenggang, Dongguan	Sewage treatment	50,000	75.5%	The project is in operation.
12	Guangdong	Phases I and II of BOT project in Sanzhou, Changan, Dongguan	Sewage treatment	150,000	35.5%	The project is in operation.
13	Guangdong	Phase I of water purification centre project in Meihu, Huizhou	Sewage treatment	100,000	100%	The project is in operation.
14	Guangdong	Phase II of water purification centre project in Meihu, Huizhou	Sewage treatment	100,000	100%	The project is in operation.
15	Guangdong	Phases I and II of water purification centre advance treatment project in Meihu, Huizhou	Sewage treatment	200,000	100%	• The project is in operation. • The upgrading project is yet to commence construction.
16	Guangdong	Phase III of water purification centre project in Meihu, Huizhou	Sewage treatment	100,000	100%	• The project is under construction. • The upgrading project is yet to commence construction.
17	Guangdong	Sewage treatment plant project in Pinghu, Shenzen	Sewage treatment	25,000	100%	• The project is in operation. • The upgrading project is yet to commence construction.
18	Guangdong	Sewage treatment plant expansion project in Pinghu, Shenzen	Sewage treatment	55,000	100%	• The project is in operation. • The upgrading 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						
19	Guangdong	Sewage treatment plant project in Pudixia	Sewage treatment	50,000	100%	• The project is in operation. • The upgrading project is yet to commence construction.
20	Guangdong	Sewage treatment plant project in Egongling	Sewage treatment	50,000	100%	• The project is in operation. • The upgrading project is yet to commence construction.
21	Guangdong	Phase II of sewage treatment plant project in Henggang	Sewage treatment	100,000	100%	• The project is in operation. • The upgrading project is yet to commence construction.
22	Guangdong	Water recycling plant project in Henggang, Shenzhen	Reclaimed water treatment	50,000	100%	The project is in operation.
23	Guangdong	Sewage treatment plant project in Guanlan, Shenzhen	Sewage treatment	200,000	60%	The project is in operation.
24	Guangdong	Phase II of water purification plant upgrading and expansion project in Guanlan, Shenzhen	Sewage treatment	40,000	60%	The project is constructed by government and operation and maintenance will be conducted by project company.
25	Guangdong	Sewage treatment plant project in Wuchuan	Sewage treatment	40,000	100%	• The project is in operation. • The upgrading project is yet to commence construction.
26	Guangxi	Sewage treatment plant project in Hongkan, Beihai	Sewage treatment	200,000	55%	The project is yet to commence construction.
27	Guangxi	Sewage treatment plant project in Daguansha, Beihai	Sewage treatment	20,000	55%	The project is yet to commence construction.
28	Guangxi	Phase I of city sewage treatment plant project in Beiliu	Sewage treatment	40,000	75.5%	• The project is in operation. • The upgrading project is under construction.
29	Guangxi	City sewage treatment plant upgrading and expansion project in Beiliu	Sewage treatment	40,000	75.5%	The project is under construction.
30	Heilongjiang	City sewage treatment plant and reclaimed water plant project in Anda	Sewage treatment	45,000	57.7%	The project is in operation.
31	Heilongjiang	Sewage treatment plant TOT project in Anda Development Zone	Sewage treatment	20,000	57.7%	The project is in operation.
32	Heilongjiang	Sewage treatment plant project in Baoqing	Sewage treatment	20,000	58%	The project is in operation.
33	Heilongjiang	City sewage treatment plant no. 2 project in Fujin	Sewage treatment	10,000	58%	The project is in operation.
34	Heilongjiang	Sewage treatment plant project in Fujin	Sewage treatment	15,000	57.1%	The project is in operation.
35	Heilongjiang	Phase I of sewage treatment plant project in Acheng, Harbin	Sewage treatment	50,000	58%	The project is in operation.
36	Heilongjiang	Phase II of sewage treatment plant project in Acheng, Harbin	Sewage treatment	50,000	58%	The project is in operation.
37	Heilongjiang	Sewage treatment plant entrustment project in old town, Hulan, Harbin	Sewage treatment	20,000	58%	The project is in operation.

	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/reclaimed water treatment projects						
38	Heilongjiang	Plant no. 2 of sewage treatment plant no. 2 project in old town, Hulan, Harbin	Sewage treatment	30,000	58%	The project is under construction.
39	Heilongjiang	Sewage treatment plant operation entrustment project in Limin, Hulan, Harbin	Sewage treatment	50,000	58%	The project is yet to commence operation entrustment.
40	Heilongjiang	Sewage treatment plant project in Pingfang, Harbin	Sewage treatment	150,000	57.3%	The project is in operation.
41	Heilongjiang	Sewage treatment plant project in Taiping, Harbin	Sewage treatment	325,000	58%	The project is in operation.
42	Heilongjiang	Sewage treatment plant project in Wenchang, Harbin	Sewage treatment	325,000	58%	The project is in operation.
43	Heilongjiang	Sewage treatment plant upgrading and reconstruction project in Wenchang, Harbin	Sewage treatment	650,000	58%	The project is in operation.
44	Heilongjiang	Sewage treatment plant project in Xinyigou, Harbin	Sewage treatment	100,000	57.3%	• The project is in operation. • The upgrading project is under construction.
45	Heilongjiang	Phase I of sewage treatment plant project in Heihe	Sewage treatment	25,000	57.6%	The project is in operation.
46	Heilongjiang	Phase I of sewage treatment project in Jiguan, Jixi	Sewage treatment	50,000	58%	The project is in operation.
47	Heilongjiang	Phase II of sewage treatment project in Jiguan, Jixi	Sewage treatment	50,000	58%	The project is in operation.
48	Heilongjiang	Phases I and II of sewage treatment plant advanced treatment project in Jiguan, Jixi	Sewage treatment	100,000	58%	The project is in operation.
49	Heilongjiang	Reclaimed water project in Jixi	Reclaimed water treatment	5,000	58%	The project is under construction.
50	Heilongjiang	Phase I of sewage treatment plant project in eastern Jiamusi	Sewage treatment	60,000	56.4%	• The project is in operation. • The upgrading project is under debugging stage.
51	Heilongjiang	Phase II of sewage treatment plant project in eastern Jiamusi	Sewage treatment	40,000	56.4%	• The project is in operation. • The upgrading project is under debugging stage.
52	Heilongjiang	Phase I of sewage treatment plant project in western Jiamusi	Sewage treatment	50,000	56.4%	The project is in operation.
53	Heilongjiang	Phase II of sewage treatment plant project in western Jiamusi	Sewage treatment	50,000	56.4%	The project is yet to commence operation.
54	Heilongjiang	Sewage treatment and reclaimed water project in eastern Jiamusi	Reclaimed water treatment	40,000	56.4%	The project is yet to commence operation.
55	Heilongjiang	City sewage treatment plant project in Mudanjiang	Sewage treatment	100,000	58%	The project is in operation.
56	Heilongjiang	Phase II of sewage treatment plant project in Mudanjiang	Sewage treatment	100,000	58%	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						
57	Heilongjiang	Sewage treatment plant project in Ningan	Sewage treatment	20,000	57.5%	• The project is in operation. • The upgrading project is under construction.
58	Heilongjiang	Sewage treatment plant reconstruction and expansion project in Ningan	Sewage treatment	15,000	57.5%	The project is under construction.
59	Heilongjiang	Sewage treatment plant franchise project in Shangzhi	Sewage treatment	40,000	58%	The project is in operation.
60	Heilongjiang	Phase I of sewage treatment plant project in Shuangyashan	Sewage treatment	50,000	58%	• The project is in operation. • The upgrading project is under construction.
61	Heilongjiang	Phase II of city sewage treatment plant project in Shuangyashan	Sewage treatment	50,000	58%	The project is in operation.
62	Heilongjiang	Sewage treatment plant in Youyi, Shuangyashan	Sewage treatment	10,000	58%	The project is in operation.
63	Heilongjiang	City sewage treatment and reclaimed water project in Anbang River Basin, Shuangyashan	Reclaimed water treatment	40,000	29.6%	The project is under construction.
64	Heilongjiang	Phases I and II of city sewage treatment plant project in Zhaodong	Sewage treatment	50,000	57.1%	The project is in operation.
65	Heilongjiang	Sewage treatment plant no. 2 project in Zhaodong	Sewage treatment	50,000	57.1%	The project is in operation.
66	Heilongjiang	Phase I of sewage treatment and reclaimed water project in eastern Hegang	Sewage treatment	30,000	58%	The project is in operation.
67	Heilongjiang	Phase II of sewage treatment and reclaimed water project in eastern Hegang	Sewage treatment	30,000	58%	The project is yet to commence construction.
68	Heilongjiang	Phase I of sewage treatment and reclaimed water project in western Hegang	Sewage treatment	50,000	58%	The project is in operation.
69	Heilongjiang	Phase II of sewage treatment and reclaimed water project in western Hegang	Sewage treatment	50,000	58%	The project is yet to commence construction.
70	Heilongjiang	Sewage treatment and water recycling project in Hegang (reclaimed water)	Reclaimed water treatment	30,000	58%	The project is yet to commence operation.
71	Heilongjiang	Sewage treatment plant project in Fuyuan (sludge disposal in sewage treatment plant)	Sewage treatment	10,000	58%	The project is in operation.
72	Heilongjiang	Sewage treatment plant project in Xinglong, Bayan	Sewage treatment	10,000	58%	The project is under construction.
73	Heilongjiang	Sewage treatment plant expansion project in Xinglong, Bayan	Sewage treatment	30,000	58%	The project is yet to commence construction.
74	Heilongjiang	Sewage treatment plant entrustment project in Bingzhou	Sewage treatment	20,000	58%	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						
75	Henan	Phase I of sewage treatment plant no.3 project in Xiping	Sewage treatment	30,000	69.1%	The project is yet to commence construction.
76	Henan	Phase II of sewage treatment plant no.3 project in Xiping	Sewage treatment	20,000	69.1%	The project is yet to commence construction.
77	Henan	Phase I of sewage treatment plant project in Dongcheng, Luohe	Sewage treatment	20,000	75.5%	The project is in operation.
78	Henan	Phase II of sewage treatment plant expansion project in Dongcheng, Luohe	Sewage treatment	30,000	75.5%	The project is under construction.
79	Henan	Sewage treatment plant project in southern Baihe, Nanyang	Sewage treatment	100,000	69.1%	The project is in operation.
80	Henan	Sewage treatment plant no.1 project in Suiping	Sewage treatment	30,000	69.1%	The project is in operation.
81	Henan	Sewage treatment plant no. 2 project in Suiping	Sewage treatment	10,000	69.1%	The project is in operation.
82	Hubei	Phase II of sewage treatment plant project in Cihu, Huangshi	Sewage treatment	125,000	100%	The project is in operation.
83	Hubei	Sewage treatment plant project in Hanxi, Wuhan	Sewage treatment	340,000	80%	• The project is in operation. • The upgrading project is in trial operation.
84	Hubei	Sewage treatment plant expansion project in Hanxi, Wuhan (including Hanxi sludge treatment project)	Sewage treatment	260,000	80%	• The project is in operation. • The upgrading project is in trial operation.
85	Hubei	Phase I of sewage treatment plant project in Qianchuan, Huangpi, Wuhan	Sewage treatment	30,000	100%	• The project is under construction. • The upgrading project is under debugging stage.
86	Hubei	Phase I of sewage treatment plant project in Panlong, Huangpi, Wuhan	Sewage treatment	22,500	100%	• The project is under construction. • The upgrading project is under debugging stage.
87	Hubei	Sewage treatment plant continued construction project in Panlong, Huangpi, Wuhan	Sewage treatment	22,500	100%	• The project is under construction. • The upgrading project is under debugging stage.
88	Hubei	Phase I of sewage treatment plant project in Wuhu, Huangpi, Wuhan	Sewage treatment	25,000	100%	The project is in operation.
89	Hubei	Phase I of sewage treatment plant project in Wuhan Economic and Technology Development Zone	Sewage treatment	60,000	100%	The project is in operation.
90	Hubei	Phase I of sewage treatment plant project in southern Suizhou	Sewage treatment	50,000	92.2%	The project is in operation.
91	Hunan	Sewage treatment BOT project in Linwu, Chenzhou	Sewage treatment	10,000	20%	The project is in operation.
92	Hunan	Phase I of sewage treatment plant project in Chenzhou	Sewage treatment	80,000	100%	• The project is in operation. • The upgrading project is yet to commence construction.
93	Hunan	Phase I of sewage treatment expansion plant project in Chenzhou	Sewage treatment	40,000	100%	• The project is in operation. • The upgrading 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						
94	Hunan	Sewage treatment project in Taohuajiang, Taojiang	Sewage treatment	20,000	75.5%	• The project is in operation. • The upgrading project is under construction.
95	Hunan	Sewage treatment plant no. 1 upgrading and expansion project in Taohuajiang, Taojiang	Sewage treatment	10,000	75.5%	The project is under construction.
96	Hunan	Sewage treatment plant project in the new zone of eastern Gaoxin, Yiyang	Sewage treatment	30,000	75.5%	• The project is in operation. • The upgrading project is yet to commence construction.
97	Hunan	Sewage treatment plant BOT project in northern Yiyang	Sewage treatment	40,000	75.5%	The project is in operation.
98	Hunan	Phase II of sewage treatment plant expansion, upgrading and reconstruction projects in northern Yiyang	Sewage treatment	40,000	75.5%	The project is in operation.
99	Inner Mongolia	Sewage treatment BOT project in Dazhuangyuan Meat Processing Plant, Xilinhot	Sewage treatment	3,500	58%	The project is under construction.
100	Inner Mongolia	Sewage treatment plant BOT project in Xilinhot	Sewage treatment	40,000	58%	• The project is under construction. • The upgrading project is under construction.
101	Jiangsu	Phase I of sewage treatment project at Xingang Park, Jingjiang	Sewage treatment	20,000	100%	The project is in operation.
102	Jiangsu	Phase II of sewage treatment project at Xingang Park, Jingjiang	Sewage treatment	20,000	100%	The project is yet to commence construction.
103	Jiangsu	Phase III of sewage treatment project at Xingang Park, Jingjiang	Sewage treatment	40,000	100%	The project is yet to commence construction.
104	Jiangsu	Phase I of sewage treatment plant project in southern Shuyang	Sewage treatment	30,000	100%	The project is in operation.
105	Jiangsu	Phase II of sewage treatment plant project in southern Shuyang	Sewage treatment	30,000	100%	The project is in operation.
106	Jiangsu	Phase I of sewage treatment plant project in Guanyinshan, Nantong	Sewage treatment	25,000	92.2%	The project is in operation.
107	Jiangsu	Phase II of sewage treatment plant project in Guanyinshan, Nantong	Sewage treatment	48,000	92.2%	The project is in operation.
108	Jiangsu	Phase I of sewage treatment plant project in Huangqiao, Taixing	Sewage treatment	25,000	100%	The project is in operation.
109	Jiangsu	Phase II of sewage treatment plant project in Huangqiao, Taixing	Sewage treatment	25,000	100%	The project is yet to commence construction.
110	Jiangsu	Phase I of sewage treatment plant project in Huangqiao Industrial Park, Taixing	Sewage treatment	10,000	100%	The project is under construction.
111	Jiangsu	Phase II of sewage treatment plant project in Huangqiao Industrial Park, Taixing	Sewage treatment	10,000	100%	The project is under construction.
112	Jiangsu	Phase I of sewage treatment plant with reclaimed water treatment project in Huangqiao Industrial Park, Taixing	Reclaimed water treatment	3,000	100%	The project is yet to commence construction.

	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/reclaimed water treatment projects						
113	Jiangsu	Phase II of sewage treatment plant with reclaimed water treatment project in Huangqiao Industrial Park, Taixing	Reclaimed water treatment	3,000	100%	The project is yet to commence construction.
114	Jiangxi	Phase I of sewage treatment plant project in Chongren Industrial Park	Sewage treatment	10,000	60%	The project is in operation.
115	Jiangxi	Phase I of sewage treatment plant project in Yihuang Industrial Park	Sewage treatment	5,000	60%	The project is in operation.
116	Jiangxi	Phase II of sewage treatment plant project in Yihuang Industrial Park	Sewage treatment	10,000	60%	The project is under construction.
117	Jiangxi	Phase I of comprehensive sewage treatment plant project in Yongxin Industrial and Development Park	Sewage treatment	10,000	60%	The project is in trial operation.
118	Jiangxi	Phase I of sewage treatment plant project in Xiaolan Economic and Development Zone, Nanchang	Sewage treatment	25,000	60%	The project is in operation.
119	Jiangxi	Phase II of sewage treatment plant project in Xiaolan Economic and Development Zone, Nanchang	Sewage treatment	50,000	60%	The project is in operation.
120	Jiangxi	Phase I of sewage treatment plant project in Wanzai Industrial Park	Sewage treatment	5,000	60%	• The project is in operation. • The upgrading project is under construction.
121	Jiangxi	Sewage treatment plant expansion project in Wanzai Industrial Park	Sewage treatment	7,500	60%	• The project is in operation. • The upgrading project is under construction.
122	Jiangxi	Phase I of sewage treatment plant project in Yongfeng Industrial Park	Sewage treatment	10,000	60%	The project is in operation.
123	Jiangxi	Sewage treatment plant in Fengxin Industrial Park	Sewage treatment	34,000	60%	• 25,000 tonnes is in operation. • 32,000 tonnes upgrading project is under construction. • 2,000 tonnes is yet to commence construction.
124	Jilin	Sewage treatment plant project in Yingcheng, Jiutai, Changchun	Sewage treatment	15,000	58%	The project is under construction.
125	Jilin	Sewage treatment plant project in Kalun, Jiutai Development Zone, Changchun	Sewage treatment	25,000	58%	• The project is in operation. • The pipe network is under construction.
126	Jilin	Sewage treatment plant project in Panshi Industrial and Development Zone	Sewage treatment	10,000	58%	The project is under construction.
127	Jilin	Sewage treatment plant project in Jilin Mincheng Economic and Development Zone	Sewage treatment	2,500	58%	The project is under construction.
128	Jilin	Phase I of sewage treatment plant project in Jiaohe	Sewage treatment	25,000	58%	The project is in operation.
129	Jilin	Sewage treatment plant project in Fuyu	Sewage treatment	30,000	58%	The project is under 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						
130	Liaoning	Phase I of sewage treatment plant project in Sanshilipu, Puwan New Zone, Dailin	Sewage treatment	20,000	92.7%	The project is under construction.
131	Liaoning	Sewage treatment plant project in Houhai, Puwan New Zone, Dailin	Sewage treatment	20,000	92.7%	The project is under construction.
132	Liaoning	Sewage treatment plant project in Dalian Bay	Sewage treatment	40,000	75.5%	The project is in trial operation.
133	Liaoning	Phase II of sewage treatment plant project in Quanshui River, Dalian	Sewage treatment	105,000	75.5%	The project is in trial operation.
134	Liaoning	Sewage treatment plant in northern Yingkou Economic and Technological Development Zone	Sewage treatment	30,000	60%	The project is in operation.
135	Liaoning	Sewage treatment plant project in Lingshui River, Dalian	Sewage treatment	60,000	86.5%	The project is in operation.
136	Liaoning	Sewage treatment plant upgrading and expansion project in Lingshui River, Dalian	Sewage treatment	20,000	86.5%	The project is in operation.
137	Liaoning	Sewage treatment plant project in Tiger Beach, Dalian	Sewage treatment	80,000	75.5%	The project is in operation.
138	Liaoning	Sewage treatment plant upgrading and expansion project in Tiger Beach, Dalian	Sewage treatment	10,000	75.5%	The project is in operation.
139	Ningxia Hui Autonomous Region	Phase I of sewage treatment plant no. 5 project in Yinchuan	Sewage treatment	50,000	100%	The project is in operation.
140	Ningxia Hui Autonomous Region	Phase II of sewage treatment plant no. 5 expansion, upgrading and reconstruction project in Yinchuan	Sewage treatment	50,000	100%	The project is in operation.
141	Ningxia Hui Autonomous Region	Phase I of sewage treatment plant project in Binhe New Zone, Yinchuan	Sewage treatment	50,000	100%	The project is in operation.
142	Ningxia Hui Autonomous Region	Escrow project for reclaimed water treatment plant no. 5 of Yinchuan Sewage Treatment Co., Ltd.	Reclaimed water treatment	50,000	100%	The project is in operation.
143	Shandong	Sewage treatment plant project in Dezhou	Sewage treatment	100,000	75.5%	The project is in operation.
144	Shandong	Sewage treatment plant project in western Weifang	Sewage treatment	40,000	75.5%	The project is in operation.
145	Shandong	Phase I of sewage treatment plant project in Weifang High Technology Industrial Development Zone	Sewage treatment	50,000	75.5%	The project is in operation.
146	Shandong	Sewage treatment plant with reclaimed water treatment project in Weifang	Reclaimed water treatment	38,500	75.5%	The project is in operation.

Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Sewage treatment/reclaimed water treatment projects					
147 Shandong	Sewage treatment plant relocation and expansion project in Weifang	Sewage treatment	200,000	75.5%	The project is in operation.
148 Shandong	Sewage treatment centre project in Shanting, Zaozhuang	Sewage treatment	20,000	75.5%	The project is in operation.
149 Shandong	Phase I of sewage treatment centre project in Yicheng, Zaozhuang	Sewage treatment	20,000	75.5%	The project is in operation.
150 Shandong	Phase II of sewage treatment centre project in Yicheng, Zaozhuang	Sewage treatment	20,000	75.5%	The project is in operation.
151 Shanghai	Phase I of sewage treatment plant no. 2 project in Qingpu	Sewage treatment	15,000	87.8%	The project is in operation.
152 Shanghai	Phase II of sewage treatment plant no. 2 project in Qingpu	Sewage treatment	45,000	87.8%	The project is in operation.
153 Shanghai	Phase III of sewage treatment plant no. 2 project in Qingpu	Sewage treatment	60,000	87.8%	The project is in operation.
154 Shanghai	Phase IV of sewage treatment plant no. 2 expansion project in Qingpu	Sewage treatment	60,000	87.8%	The project is in operation.
155 Shanghai	Sewage treatment plant no. 2 expansion project in Qingpu	Sewage treatment	60,000	87.8%	The project is yet to commence construction.
156 Shanghai	Sewage treatment plant project in western Fengxian	Sewage treatment	100,000	73.7%	The project is in operation.
157 Shanghai	Phase II of sewage treatment plant expansion project in western Fengxian	Sewage treatment	50,000	73.7%	The project is in operation.
158 Shanghai	Phase III of sewage treatment plant expansion project in western Fengxian	Sewage treatment	50,000	73.7%	The project is in operation.
159 Zhejiang	Phase I of sewage treatment plant with pipe network ancillary facilities project in Zhejiang Chemical Raw Material Base Linhai Park	Sewage treatment	12,500	100%	The project is in operation.
160 Zhejiang	Phase I of sewage treatment plant with pipe network ancillary facilities expansion project in Zhejiang Chemical Raw Material Base Linhai Park	Sewage treatment	12,500	100%	The project is in operation.
161 Zhejiang	Sewage treatment plant with pipe network ancillary facilities expansion project in Zhejiang Chemical Raw Material Base Linhai Park	Sewage treatment	25,000	100%	The project is yet to commence construction.
162 Zhejiang	Batch 1 of phase I of water purification plant project in Xiaocaoe, Yuyao	Sewage treatment	60,000	69.1%	The project is in operation.
163 Zhejiang	Batch 2 of phase I of water purification plant project in Xiaocaoe, Yuyao	Sewage treatment	60,000	69.1%	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						
164	Zhejiang	City sewage treatment plant upgrading and expansion project in Xiaocaoe, Yuyao	Sewage treatment	30,000	69.1%	The project is in operation.
165	Zhejiang	Phase III of city sewage treatment plant upgrading and reconstruction project in Xiaocaoe, Yuyao	Sewage treatment	75,000	69.1%	The project is in operation.
166	Zhejiang	Phase III of city sewage treatment plant upgrading, reconstruction and expansion project in Xiaocaoe, Yuyao	Sewage treatment	75,000	69.1%	The project is yet to commence construction.
167	Zhejiang	Sewage pretreatment plant project in Zhacai, Yuyao	Sewage treatment	3,000	69.1%	The project is in operation.
168	Zhejiang	Sewage treatment plant upgrading and reconstruction project in Binhai, Huangjiabu, Ningbo	Sewage treatment	30,000	64.5%	The project is in operation.
169	Zhejiang	Phase I of sewage treatment plant expansion project in new zone of Hangzhou Bay, Ningbo	Sewage treatment	90,000	64.5%	• The project is in operation. • The upgrading project is under debugging stage.
170	Zhejiang	Sewage treatment plant and artificial wetland entrustment project in northern Cixi	Sewage treatment	100,000	59.9%	The project is in operation.
171	Zhejiang	Phase I of sewage treatment plant project in eastern Pinghu	Sewage treatment	40,000	100%	The project is in operation.
172	Zhejiang	Phase I of sewage treatment plant expansion project in eastern Pinghu	Sewage treatment	45,000	100%	The project is under construction.
173	Zhejiang	Phase II of sewage treatment plant expansion project in eastern Pinghu	Sewage treatment	135,000	100%	The project is yet to commence construction.
Total				**9,418,000**		

	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 no. 1 project in Mudanjiang	Water supply	80,000	58%	The project is in operation.
2	Heilongjiang	Water supply plant no. 2 project in Mudanjiang	Reclaimed water treatment	50,000	58%	The project is yet to commence operation.
3	Heilongjiang	Water supply plant no. 4 project in Mudanjiang	Water supply	170,000	58%	The project is in operation.
4	Heilongjiang	City water supply TOT project in Jiamusi (Xijiao water resource water supply project)	Water supply	160,000	58%	The project is in operation.
5	Heilongjiang	City water supply TOT project in Jiamusi (Jiangbei water supply plant)	Water supply	200,000	58%	The project is in operation.
6	Henan	Water supply plant no. 1 project in Suiping	Water supply	30,000	69.1%	The project is in operation.
7	Henan	Water supply plant no. 2 project in Suiping	Water supply	10,000	69.1%	The project is in operation.

	Province	Projects of SIIC Environment	Project type	Daily production capacity (tonnes)	Interest attributable to SIIC Environment	Project progress
Water supply projects						
8	Hubei	Water supply plant no. 1 project in Tianmen	Water supply	100,000	100%	The project is in operation.
9	Hubei	Phase I of water supply plant no. 2 project in Tianmen	Water supply	100,000	100%	The project is in operation.
10	Hubei	Water supply project in Xinlong, Tianmen	Water supply	Not applicable	70%	The project is in operation.
11	Hubei	Water supply plant expansion project in Qianchuan, Huangpi, Wuhan	Water supply	40,000	100%	The project is in operation.
12	Hubei	Water supply plant reserve entrustment project in Qianchuan, Huangpi, Wuhan	Water supply	80,000	100%	The project is in operation.
13	Hubei	Phase 5 of water supply plant reconstruction and expansion project in Qianchuan, Huangpi, Wuhan	Water supply	60,000	100%	The project is under construction.
14	Hubei	Phase I of New Wuhu water supply plant project in Huangpi, Wuhan	Water supply	100,000	100%	The project is in operation.
15	Hubei	Phase II of New Wuhu water supply plant project in Huangpi, Wuhan	Water supply	150,000	100%	The project is yet to commence construction.
16	Hunan	Huilongshan water supply plant city water supply project in Yiyang	Water supply	120,000	90%	The project is in operation.
17	Hunan	Phase I of water supply plant no. 3 city water supply project in Yiyang	Water supply	100,000	90%	The project is in operation.
18	Hunan	Phase II of water supply plant no. 3 city water supply expansion project in Yiyang	Water supply	100,000	90%	The project is in operation.
19	Hunan	Water supply plant no. 4 water supply project in Yiyang	Water supply	200,000	90%	The project is under construction.
20	Shandong	Water supply project in Hanting, Weifang	Water supply	60,000	26.2%	The project is in operation.
21	Shandong	City water supply project in Weifang (Bailanghe water supply plant)	Water supply	120,000	51.3%	The project is in operation.
22	Shandong	City water supply project in Weifang (Gaoxin water distribution plant)	Water supply	200,000	51.3%	The project is in operation.
23	Shandong	Fangzi Water Supply Holding Company project in Weifang	Water supply	40,000	26.2%	The project is in operation.
24	Shanxi	Water diversion project from Wenshui to Pingchuan (southern line)	Water supply	55,000	100%	The project is in operation.
Total				**2,325,000**		
Total for water projects				**11,743,000**		

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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	Shandong	Phase I of household waste incineration thermal power generation project in Wulian	Water incineration	300	82.9%	The project is under construction.
2	Shandong	Phase II of household waste incineration thermal power generation project in Wulian	Water incineration	300	82.9%	The project is yet to commence construction.
3	Shandong	Waste incineration thermal power generation project in Shen	Water incineration	1,200	47.5%	The project is yet to commence construction.
4	Shanghai	Waste incineration thermal power generation project in Pucheng	Water incineration	1,050	50%	The project is in operation.
5	Sichuan	Stage 1 of city household waste incineration thermal power generation project in Dazhou	Water incineration	700	100%	The project is in operation.
6	Sichuan	Stage 2 of city household waste incineration thermal power generation project in Dazhou	Water incineration	350	100%	The project is yet to commence construction.
7	Zhejiang	Waste incineration thermal power generation project in Wenling	Water incineration	1,100	50%	The project is in operation.
Total				**5,000**		

	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 of sewage treatment plant sludge disposal project in Harbin	Sludge treatment	650	58%	The project is in operation.
2	Heilongjiang	Phase II of sewage treatment plant sludge disposal project in Harbin	Sludge treatment	350	58%	The project is in operation.
3	Heilongjiang	Sludge disposal project in Heihe	Sludge treatment	40	57.6%	The project is yet to commence operation.
4	Heilongjiang	Sewage treatment plant sludge disposal project in Jiamusi	Sludge treatment	100	56.4%	The project is in operation.
5	Heilongjiang	Sewage treatment plant sludge disposal project in Mudanjiang	Sludge treatment	150	58%	The project is in operation.
6	Heilongjiang	Sludge disposal plant project in Ningan	Sludge treatment	40	57.5%	The project is in operation.
7	Henan	Sludge disposal project in Xinxiang	Sludge treatment	300	69.1%	The project is in operation.
8	Henan	Phase I of sewage treatment plant sludge disposal project in Nanyang	Sludge treatment	200	69.1%	The project is in operation.
9	Henan	Phase II of sewage treatment plant sludge disposal project in Nanyang	Sludge treatment	100	69.1%	The project is in operation.
10	Hubei	Sludge disposal project in Hanxi, Wuhan	Sludge treatment	325	80%	The project is in trial operation.
Total				**2,255**		

	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 projects 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 Wenzhou	Sewage treatment	50,000	Not applicable	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	Auhui	Water supply project in Huaiyuan	Water supply	97,000	60%	Bidding project was won.
4	Fujian	Water generation project in Xiamen	Water generation	1,565,000	45%	The project is in operation.
5	Heilongjiang	Wuhua mountain reservoir project and water supply project in Suifenhe	Water supply	305,000	100%	The project is in operation.
6	Hubei	Water supply project in Xiangyang	Water supply	953,000	50%	The project is in operation.
7	Hunan	Water supply project in Xiangtan	Water supply	425,000	70%	The project is in operation.
8	Zhejiang	Reservoir and water induction project in Tiger Lake, Huzhou	Water supply	200,000	100%	The project is in operation.
9	Zhejiang	GWC sewage treatment (water supply plant) project in Huzhou	Water supply	12,000	100%	The project is in operation.
Total				**4,362,000**		
Total for water projects				**6,799,500**		

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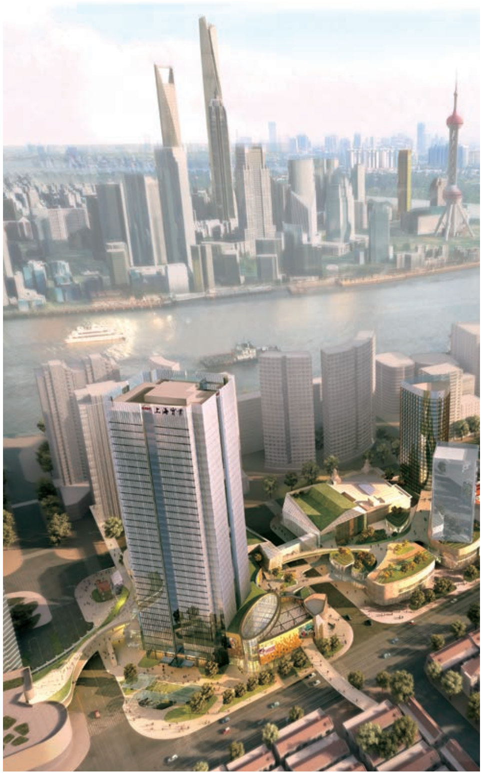

NEW BUSINESS ARENA

As at the end of 2018, the total photovoltaic asset capacity of Shanghai Galaxy and its 80.25% owned subsidiary, Galaxy Energy, amounted to approximately 580MW with an additional 19.8MW acquired during the year. The photovoltaic team continued to strengthen in-depth studies on macro policies, industry dynamics and the capital market and also sought new acquisition projects with potential as opportunities arise. During the year, the two companies further improved the management of existing projects, reducing costs and enhancing efficiencies. The total amount of on-grid electricity sold from the 12 photovoltaic power stations reached 819 million kWh, representing an increase of 15.3% over last year. In addition, the Ningdong Taike project and the Xinzhou Taike project under Shanghai Galaxy and Galaxy Energy were successfully listed in the Renewable Energy Tariff Subsidies Catalogue.

In June 2018, the Company (through its wholly-owned subsidiary) and Shanghai Pharmaceuticals, a subsidiary of the parent company, both as cornerstone investors, subscribed for CIRC's H shares for approximately HK$257 million and HK$173 million, respectively, representing approximately 3.7% and 2.5% of the total enlarged share capital of CIRC. The investment has provided the Group with an opportunity to participate in the nuclear medicine industry with higher entry barriers and to develop more potential projects in the field with stable growth.

In July 2018, Shanghai Jiyun, a wholly-owned subsidiary of the Company, and Shangtou Asset and Shanghai Galaxy, both subsidiaries of the parent company, established a joint venture entity in Shanghai, the PRC with capital contributions of RMB200 million, RMB200 million and RMB100 million, respectively. The joint venture company then completed the acquisition of a 30% interest of Green Energy through public bidding by way of capital increase at the end of August for investment in the offshore wind power stations industry.

REAL ESTATE

The real estate segment recorded a profit of HK$1,118 million for the year, representing a year-on-year increase of 27.2% and accounting for 28.4% of the Group's Net Business Profit. Since the Company holds a 49% interest in Shanghai Bay, a project in Qingpu, Shanghai developed by SI Development, the profit shared on the booked revenue upon delivery of the properties during the year contributed to the remarkable growth in profits of the real estate business.

SI Development

The revenue of SI Development for 2018 amounted to RMB8,664 million, representing an increase of 18.0% over last year, the growth of which was mainly attributable to booked revenues from its projects. Net profit for the year was RMB658 million, representing a decrease of 25.0% year-on-year. SI Development completed the acquisition of two property management companies and management takeover in the first half of the year, enabling it to establish a unified platform for its property management business, and laying a solid foundation for modular and organized management practices. The company also continued to integrate its resources on investment properties, optimize its customer structure, stabilize the level of its leasing activities and continued to move forward with service upgrading and brand building.

During the year, properties were sold according to targets for specific cities while development and management controls have been elevated. Contract sales amounted to RMB5,257 million, with a gross floor area of 272,400 square meters, among which, new projects for sale such as A New Era in Jiading, Shanghai, Shanghai Bay in Qingpu, Shanghai and SIIC Tianlan Bay in Huzhou achieved encouraging sales performance. Projects launched for sale, including Hi-Shanghai in Hangzhou, Sea Palace in Quanzhou were popular among premium customers, with an increasing number of contracts signed. Property sales booked during the year amounted to RMB5,080 million for the year, with a gross floor area of 326,600 square meters, which mainly included Shanghai Bay in Qingpu, Shanghai, Sea Palace in Quanzhou, International Beer City in Qingdao and Shanghai International Art Centre in Shanghai. The rental income for the year amounted to approximately HK$524 million. A total of 10 projects were under construction during the year, covering a total gross floor area of 2,260,000 square meters.

In November 2018, a wholly-owned subsidiary of SI Development entered into an equity transfer agreement for the acquisition of 49% equity interests in SID Quanzhou for a consideration of RMB978 million. The transaction was completed by the end of 2018. Together with the acquisition of 2% equity interests from another shareholder in December 2017, the company is now wholly-owned by SI Development. SID Quanzhou is principally engaged in the development of the Sea Palace project in Donghai, Quanzhou, the PRC into a large urban integrated community, scheduled to be launched to the market by phases over the next few years.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In the same month, Qingdao Shanghai Industrial Investment Center – Phase III, an alteration and construction project of SI Development's International Beer City in Qingdao officially commenced. Located at a prime area of the Jinjialing Financial Zone, Laoshan District, the development is situated at the core of the national pilot district for integrated financial reforms and is a Class 2 key construction project for the Qingdao municipal government and Laoshan district government. The Phase III project has a site area of approximately 30,300 square meters, with a total gross floor area of approximately 220,000 square meters. The project will be developed into a super high-rise twin tower of 201.8 meters high, with large international conference rooms and business and entertainment facilities. A large urban complex featuring financial, commercial, hotel, cultural and entertainment facilities, the development has attracted some of the world's top 100 enterprises and leading local banks and financial institutions, notably the Diaoyutai Hotel and MGM Resorts, both renowned international hotel brands. Upon completion, the development is expected to become a landmark building in the Jinjialing Financial Zone in the central business area of Laoshan.

In February 2019, SI Development won two parcels of lands both located in the large residential community in Gucun, Baoshan, Shanghai through bidding, namely Gucun land parcel No. 0421-01 (approximately 26,600 square meters) and Gucun land parcel No. 0423-01 (approximately 32,100 square meters). The total consideration amounted to approximately RMB2,819 million, for a term of 70 years with a plot ratio of 2.0. The acquisition is line with SI Development's strategy to strengthen its investments in Shanghai. The acquisition will increase the company's land bank, further strengthen its well-established brand image in the Shanghai market and bring about a positive impact to future economic return and brand effectiveness.

In 2019, SI Development will speed up its project development activities, promote the transformation and upgrading of its property management and property investment businesses. Apart from further developing financial real estate and cultural real estate businesses, it will explore other business arenas in urban redevelopment, long-term rental apartments and real estates for elderly care, striving to improve overall operational efficiency and to create benchmark projects for the company, build branding effect, explore its core values and improve its results as a whole.

SI Urban Development

Profits attributable to shareholders of SI Urban Development for 2018 amounted to HK$573 million, representing a year-on-year rise of 6.9%. Revenue for the year amounted to HK$6,978 million, representing a decrease of 25.6% from last year, primarily accounted for the delay in rolling out new projects and revenue carried forward during the first three quarters due to imposition of price limits. Property sales booked for the year amounted to HK$5,966 million, and approximately 269,000 square meters of gross floor area were delivered, mainly including Urban Cradle and Grand Mansion in Shanghai, and Originally in Xi'an. Rental income amounted to HK$704 million for the year. Contract sales amounted to RMB5,150 million, accounting for a gross floor area of 239,000 square meters, and mainly from projects including Urban Cradle in Shanghai, Originally in Xi'an and Contemporary Arts Villas in Shanghai.

In January and February 2018, SI Urban Development entered into respective agreements with a wholly-owned subsidiary of the parent company to acquire a 35% equity interest in North Investment for a consideration of approximately RMB88.34 million, and a 100% equity interest in Shangtou Real Estate for approximately RMB531 million. The two companies were respectively engaged in primary and secondary land development. Through such acquisitions, SI Urban Development is now engaged in both primary and secondary land developments complementing its principal business.

In addition, SI Urban Development achieved major breakthroughs in primary commercial land development in Shanghai, focusing on developments for commercial and office buildings. In July 2018, SI Urban Development acquired a parcel of land located in Meilong Town, Minhang District, Shanghai with a total site area of 20,571.9 square meters for a consideration of RMB522.53 million. Representing the first commercial and office land parcel under the "urban village" renovation project in Shanghai, the site is planned to be developed into a refined living community integrating business, culture and education, leisure and entertainment as well as retailing activities. The acquisition established a strong foothold for SI Urban Development in the Minhang District.

SI Urban Development has launched a number of residential developments in the market, recording stable prices and consistent sales. In October 2018, Urban Cradle – Royal Mansion achieved sales of RMB1,500 million within just the first hour of sales. In August, all units in towers 1 and 3 of Phase I of the residential portion of TODTOWN, an integrated landmark metro superstructure in Shanghai, were sold within the first three hours. In May 2018, the Originally project in Xi'an also achieved remarkable results with all its small luxury residential units sold out shortly after they were put on the market. In the second half of the year, the Contemporary Art Villa, a rare find villa project in Shanghai, attracted high-end customers with dozens of units sold out rapidly.

In line with its strategy, SI Urban Development has acquired lands through a number of channels to increase its opportunities for obtaining new sites for development, including bidding, share acquisitions as well as urban renewals. During the year, the company successfully won tenders for two pieces of land for "residential rental property" purpose in Shanghai through public tenders, marking its official entry into the residential rental market. In November, Shanghai Urban Development, a subsidiary owned as to 59% by SI Urban Development, won the bid for a piece of land situated at Caohejing Road, Xuhui District, Shanghai with a total gross floor area of approximately 17,161 square meters, at a consideration of RMB456.48 million. In December 2018, Shanghai Urban Development successfully bid another piece of land situated at Zizhu Hi-Tech Industrial Development Zone, Wujing Town, Minhang District, Shanghai with a total gross floor area of approximately 47,383.3 square meters, for a total consideration of RMB649.10 million. The two land parcels will be developed into residential developments for rental purpose according to respective land use categories. Developing residential rental properties is expected to bring a stable income to SI Urban Development in the long term, and is in line with the State's "rental and purchase in parallel" housing policy.

Set out below is a summary of the major property development projects of the Group as at 31 December 2018:

Major Development Properties

	City	Projects of SI Development	Type of property	Interest attributable to SI Development	Approximate site area (square meters)	Planned total GFA (square meters)	Pre-sold during the year (square meters)	Total GFA sold (square meters)	Expected date of completion
1	Kaifu District, Changsha	Fengsheng Building	Residential and commercial	90%	5,468	70,566	6,718	21,400	Completed
2	Chenghua District, Chengdu	Hi-Shanghai	Residential and commercial	100%	61,506	254,885	8,940	185,213	Completed
3	Beibei District, Chongqing	Hi-Shanghai	Residential and commercial	100%	30,845	74,935	6,951	54,133	Completed
4	Yuhang District, Hangzhou	Hi-Shanghai (Phase I)	Residential and commercial	85%	74,864	230,484	10,689	–	Completed
5	Yuhang District, Hangzhou	Hi-Shanghai (Phase II)	Residential and commercial	85%	59,640	198,203	47,877	–	2019
6	Wuxing District, Huzho	SIIC Garden Hotel	Hotel and Commercial	100%	116,458	47,177	–	–	Completed

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	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
7	Wuxing District, Huzhou	Hurun Commercial Plaza	Commercial	100%	13,661	27,322	–	–	Under planning
8	Wuxing District, Huzhou	SIIC Tianlan Bay	Residential and commercial	100%	115,647	193,292	67,462	–	2019
9	Wuxing District, Huzhou	SIIC Yungjing Bay	Residential	100%	68,471	207,906	7,598	–	2020
10	Shilaoren National Tourist Resort, Qingdao	International Beer City	Composite	100%	227,675	807,166	17,808	333,798	2014 to 2022, in phases
11	Fengze District, Quanzhou	Sea Palace	Residential and commercia	100%	170,133	1,064,099	24,399	152,123	2017 to 2021, in phases
12	Hongkou District, Shanghai	North Bund Project	Commercial and office	90%	23,037	230,568	–	–	2021
13	Jiading District, Shanghai	A New Era in the City	Residential and commercial	100%	58,949	163,351	28,759	–	Completed
14	Jiading District, Shanghai	Essence of Shanghai	Residential and commercial	100%	32,991	75,559	4,444	39,473 (parking lots included)	Completed
15	Jing'an District, Shanghai	Territory Shanghai	Residential	100%	32,512	114,737	–	76,768	2019
16	Jinshan District, Shanghai	Flos Granti	Residential	100%	135,144	214,143	3,136	191,146	Completed
17	Qingpu District, Shanghai	Belle Rive	Villa	51%	315,073	59,577	588	18,152	Completed
18	Qingpu District, Shanghai	Shanghai Bay	Residential	51%	808,572	631,199	26,664	213,300 (parking lots included)	2011 to 2021, in phases
19	Qingpu District, Shanghai	He Villa/Sea County	Residential	51%	162,708	121,683	149	84,627 (shops and parking lots included	Completed
20	Qingpu District, Shanghai	Shanghai International Art Centre	Composite	100%	194,956	120,363	10,958	96,027	Completed
21	Wuzhong District, Suzhou	Sudi Lot 2017-WG-10	Commercial	100%	40,817	127,199	–	–	2020
Sub-total					**2,749,127**	**5,034,414**			

	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	–	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	3,429	305,646	2007 to 2025, in phases

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	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
5	Jiulongpo District, Chongqing	Top City	Residential, commercial and office	100%	120,014	786,233	–	376,095	Completed
6	Huaqiao Town, Kunshan	Yoooou.net	Commercial and office	30.7%	34,223	129,498	158	63,133	Completed
7	Zhoushi Town, Kushan	Royal Vila	Residential	53.1%	205,017	267,701	6,867	215,912	Completed
8	Baoshan District, Shanghai	Shangtou Baoxu	Residential	100%	118,880	306,167	–	–	2019 to 2020, in phases
9	Minhang District, Shanghai	Urban Cradle	Residential and commercial	53.1%	943,000	1,226,298	26,500	795,540	2007 to 2022, in phases
10	Minhang District, Shanghai	Shanghai Jing City	Residential and commercial	59%	301,908	772,885	335	560,409	2012 to 2019, in phases
11	Minhang District, Shanghai	TODTOWN	Residential, commercial, hotel, office and apartment office	20.7%	117,825	605,000	37,659	37,659	2018 to 2022, in phases
12	Minhang District, Shanghai	Contemporary Art Villas (Jade Villa)	Residential	100%	116,308	83,622	8,838	40,543	2018 to 2022, in phases
13	Minhang District, Shanghai	Contemporary Splendour Villas	Residential	100%	120,512	191,636	–	–	2018 to 2022, in phases
14	Minhang District, Shanghai	Shangtou Xinhong	Residential	90%	69,495	212,347	–	–	2021
15	Minhang District, Shanghai	Chenghang Project	Commercial and office	80%	20,572	60,964	–	–	2021
16	Minhang District, Shanghai	Shenzhicheng Project	Rental Housing	29.5%	47,435	128,075	–	–	2022
17	Minhang District, Shanghai	Chenglong Project	Rental Housing	59%	47,383	118,458	–	–	2023
18	Songjiang District, Shanghai	Shanghai Youth City	Commercial and office	100%	57,944	212,130	–	139,840	Completed
19	Xuhui District, Shanghai	Jingxiang Project	Rental Housing	59%	17,161	48,050	–	–	2022
20	Xuhui Binjiang, Shanghai	Binjiang U Center	Office and commercial	35.4%	77,371	525,888	–	–	2019 to 2021, in phases
21	Heping District, Shenyang	Shenyang • U Centre	Commercial, office and serviced apartment	80%	22,651	228,768	30,778	50,524	2015 to 2019, in phases
22	Futian District, Shenzhen	China Phoenix Tower	Residential, commercial and office	91%	11,038	106,190	–	78,343	Completed
23	Nankai District, Tianjian	Laochengxiang	Residential, commercial and office	100%	244,252	752,883	–	578,266	2006 to 2019, in phases
24	Binghu District, Wuxi	Urban Development International Center	Commercial, hotel, office and serviced apartment	59%	24,041	193,368	–	42,303	Completed
25	Chanba Ecotope, Xi'an	Originally	Residential, commercial and hotel	71.5%	2,101,967	3,899,867	154,370	2,388,278	2008 to 2022, in phases
Sub-total					**5,775,357**	**13,011,989**			

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	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%	315,073	59,577	588	18,152	Completed
2	Qingpu District, Shanghai	Shanghai Bay	Residential	49%	808,572	631,199	26,664	213,300 (parking lots included)	2011 to 2021, in phases
3	Qingpu District, Shanghai	He Villa/Sea County	Residential	49%	162,708	121,683	149	84,627 (shops and parking lots included)	Completed
Sub-total					**1,286,353**[1]	**812,459**[1]			
Total					**9,810,837**[1]	**18,858,862**[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 Lots D2 and D3	Residential and commercial	51%	349,168	174,584	2020
Sub-total					**349,168**	**174,584**	

	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 Lots D2 and D3	Residential and commercial	49%	349,168	174,584	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]	**550,488**[1]	
Total					**1,450,143**[1]	**725,072**[1]	

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%	769
2	Qingdao Economic Development Zone	Dali Plaza	Commercial	76%	21,495
3	Laoshan District, Qingdao	Shanghai Industrial Investment Centre	Office	100%	24,749
4	Changning District, Shanghai	Super Ocean Finance Center	Office	100%	2,321
5	Changning District, Shanghai	United 88	Commercial	100%	50,560 (car park included)
			Office	100%	38,923 (car park included)
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%	47,211 (car park included)
9	Huangpu District, Shanghai	Huangpu Estate	Commercial	100%	20,918
10	Huangpu District, Shanghai	No. 108 Haichao Road	Commercial	100%	474
11	Jing'an District, Shanghai	Territory Shanghai	Commercial	100%	2,413 (carpark included)
12	Pudong New District, Shanghai	No. 1111 Shangchuan Road	Industrial Building	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%	23,154 (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					**378,633**

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	Songjiang District, Shanghai	Shanghai Youth City	Commercial	100%	16,349[2]
5	Xuhui District, Shanghai	Urban Development International Tower	Office	59%	45,239
6	Xuhui District, Shanghai	YOYO Tower	Commercial	59%	13,839
7	Futian District, Shenzhen	China Phoenix Tower	Office	91%	1,048[2]
8	Shanghai and Tianjin	Others	Commercial, office and parking lot	59%	9,249
Sub-total					**641,990**
Total					**1,020,623**

Notes:
1. There are duplicate figures in the GPA of Belle Rive, Shanghai Bay and He Villa/Sea County in Shanghai and Zhujiajiao Lots D2 and D3.
2. Such total GFAs are duplicate figures, which have been included in the Major Development Properties table.

CONSUMER PRODUCTS

The consumer products business recorded a profit of HK$1,076 million during the year, representing a year-on-year rise of 0.6% over last year and accounting for approximately 27.3% of the Group's Net Business Profit. Nanyang Tobacco continued to strengthen its structure, improved operational efficiency and stepped up efforts to diversify its products. To enhance its competitive advantages, the company also developed heterotypic products and carried out technology innovation and modification. Maintaining a stable operation, Wing Fat Printing achieved satisfactory growth in revenue and profits for both packaging business and moulded fibre business.

Tobacco

Ensuring a healthy internal operation and external development, Nanyang Tobacco has committed to strengthen its existing business and continue to pursue for excellence. Not only focusing on rapid expansion, the company has been trying to develop exquisite and innovative products. Capitalizing on opportunities for the development of heterotypic tobacco, the company has kept abreast with new market trends and accelerated the production of innovative products. Revenue and profit after tax for the year amounted to HK$3,215 million and HK$955 million respectively, representing a year-on-year increase of 4.0% and 0.5%.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

In respect of product upgrading, Nanyang Tobacco further enhanced and upgraded its products, effectively strengthened the competitive strengths of the classic series and replaced its traditional soft packs as well as launching round box products. The development of new products has expanded the depth and breadth of the classic product series. Upholding its market-oriented principle, Nanyang Tobacco successfully developed a new vintage and elegant product as well as the first Hong Kong-styled milk tea flavour capsule product of Nanyang Tobacco. It also launched a commemorative cigarette version for Hong Kong-Zhuhai-Macau Bridge on the occasion of the opening of the bridge and the first super slim size cigarette of Nanyang Tobacco.

During the year, Nanyang Tobacco introduced new equipment to produce heterotypic cigarettes, enhancing its position as a leading company in the world. Equipped with a rapid switching and versatile processing system for its production lines, the company is able to produce multiple specifications and packaging of cigarettes, and has developed five new product features – super slim size cigarettes, nano size cigarettes, slim size cigarettes, regular size cigarettes and king size cigarettes, meeting popular demands from the market. Currently, Nanyang Tobacco continued to further study the composite technology for composite filters and innovative tobacco products which are heated and non-flammable.

In respect of business cooperation, Nanyang Tobacco and a PRC large cigarette enterprise have jointly established an overseas manufacturing base during the year to further realize its strategy of localizing production and sales, so as to enhance its brands for overseas sales and marketing in international markets, and build platforms for overseas production and sales management, overseas investment as well as mergers and acquisitions and market expansion of innovative tobacco products. In addition, the company has also carried out strategic cooperation projects with its Korean partner, complementing each other's advantages and sharing resources in relation to marketing, cigarette technologies, innovative tobacco development and raw material procurement, in order to work together to achieve mutual benefits and win-win results.

In future, Nanyang Tobacco will undergo product innovations and developments in a sustainable way to meet the increasing demand of consumers. It will enhance its sales and marketing strategies, move forward the brand upgrading of classic series and strengthen its leading position in regional sales. Furthermore, Nanyang Tobacco will continue to work together with its partners to achieve win-win co-operation, further explore development, and carefully plan for the upgrading and expansion project for its canned tobacco production lines to maintain its leading position in the industry.

Printing

Wing Fat Printing recorded a revenue of HK$1,553 million in 2018, representing a year-on-year increase of 9.7%, benefiting from growth from both the packaging business and the moulded fibre business. Net profit for the year amounted to HK$128 million, which were almost the same as last year.

2018 marked the 105th anniversary of Wing Fat Printing, and a year to consolidate the transformation development of the company. Against a complex macroeconomic environment, including the on-going Sino-US trade frictions, slower economic growth in the Greater China Region and greater exchange rate fluctuations, Wing Fat Printing overcame such difficulties and achieved steady growth. During the year, the company negotiated with large international customers who demanded price reductions, confronted surging raw material prices and rising labor costs and strengthened internal management in order to meet imminent challenges. Looking ahead, the company will continue to consolidate its transformation, build up a team of talents, promote all rounded and balanced developments and made considerable efforts to achieve stable and healthy growth and to realize the Group's "1+1+1" development goals.

FINANCIAL REVIEW

KEY FIGURES

	2018	2017 (restated)	Change %
Results			
Revenue (HK$'000)	30,412,883	29,520,325	3.0
Profit attributable to owners of the Company (HK$'000)	3,333,020	3,135,182	6.3
Earnings per share – basic (HK$)	3.066	2.884	6.3
Dividend per share (HK cents)	100	94	
– Interim (paid)	48	46	
– Final (proposed)	52	48	
Dividend payout ratio	32.6%	32.6%	
Interest cover (note (a))	6.2 times	7.1 times	

	2018	2017 (restated)	Change %
Financial Position			
Total assets (HK$'000)	167,419,445	174,382,141	-4.0
Equity attributable to owners of the Company (HK$'000)	41,275,296	41,742,566	-1.1
Net assets per share (HK$)	37.96	38.39	-1.1
Net debt ratio (note (b))	61.57%	47.40%	
Gearing ratio (note (c))	42.57%	42.78%	
Number of shares in issue (shares)	1,087,211,600	1,087,211,600	

Note (a): (profit before taxation, interest expenses, depreciation and amortization)/interest expenses

Note (b): (interest-bearing loans-cash)/equity attributable to owners of the Company

Note (c): interest-bearing loans/(equity attributable to owners of the Company + non-controlling interests + interest-bearing loans)

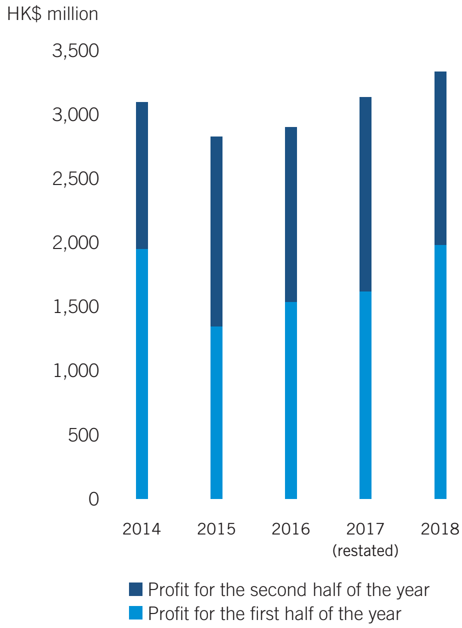
Note: The Company's non-wholly owned subsidiary, SI Urban Development has adopted the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants to account for its acquisitions of Shanghai Shangtou Real Estate Investment Company Limited from SIIC. The comparative figures for 2017 contained in this Financial Review had been restated accordingly.

FINANCIAL REVIEW

I ANALYSIS OF FINANCIAL RESULTS

1 Profit attributable to owners of the Company

For the year ended 31 December 2018, the Group recorded a profit attributable to owners of the Company of HK$3,333.02 million, an increase of HK$197.84 million or approximately 6.3% as compared to 2017.

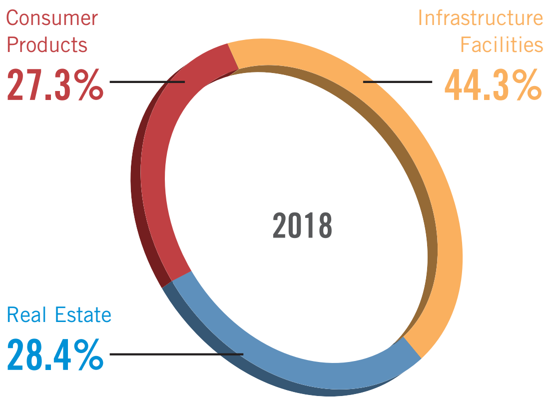


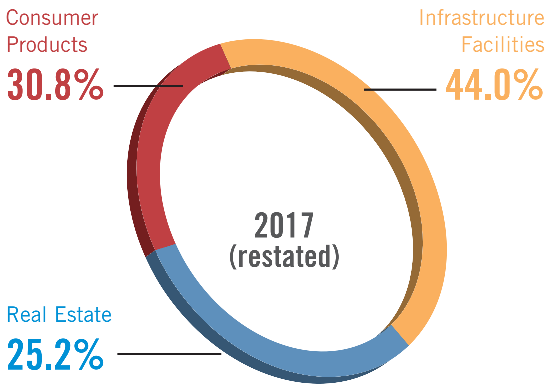
2 Profit Contribution from Each Business

The profit contributed by each business in the Group for the year 2018 and the comparative figures last year was summarized as follows:

	2018 HK$'000	2017 (restated) HK$'000	Change %
Infrastructure Facilities	1,748,517	1,533,351	14.0
Real Estate	1,117,805	878,516	27.2
Consumer Products	1,076,469	1,070,261	0.6
	3,942,791	3,482,128	13.2

FINANCIAL REVIEW





Net profit from infrastructure facilities business for the year amounted to approximately HK$1,748.52 million, accounting for 44.3% of Net Business Profit, and representing a year-on-year increase of 14.0%. For toll roads and bridge business, benefiting from natural growth in traffic, as well as increases in shareholdings of Zhejiang Wufangzhai Industrial Co., Ltd. in June 2017 which brought about additional sharing in profits. As a result, the toll roads and bridge business recorded a year-on-year increase in profit of 4.3%.

For water services business, an increase in profit of 42.7% was recorded. The Company increased its shareholdings in SIIC Environment and Canvest Environmental resulted in increase in sharing of their respective profits. The result of General Water of China was driven by increases in operating income resulting in a considerable year-on-year increase in profits.

The real estate business recorded a profit of approximately HK$1,117.81 million, accounting for 28.4% of the Net Business Profit, and representing an increase of approximately 27.2% over 2017. As the Company holds 49% interest of Shanghai Bay project under SI Development, higher property sales revenue were recognised for this project during the year, the higher profit thereon contributed to the remarkable growth in profit of the real estate business.

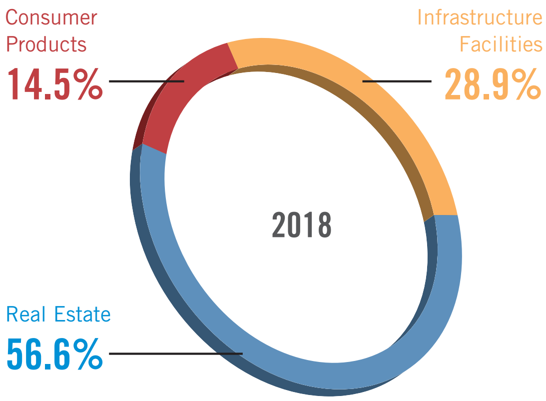
The consumer products business recorded a net profit of HK$1,076.47 million, accounting for 27.3% of Net Business Profit, and representing a year-on-year increase of 0.6%. Despite an increase in revenue of cigarettes of 4.0% during the year, the net profit of Nanyang Tobacco remained stable due to increases in material costs and manufacturing expenses. Wing Fat Printing contributed a net profit of HK$121.05 million for the year, representing a year-on-year increase of 0.9%. Although profit contribution by moulded fiber packaging business increased during the year, the disposal of 25% equity interest in Xuchang Yongchang Printing Co., Ltd. contributed a net profit of HK$19.25 million in last year partly offset the profit growth.

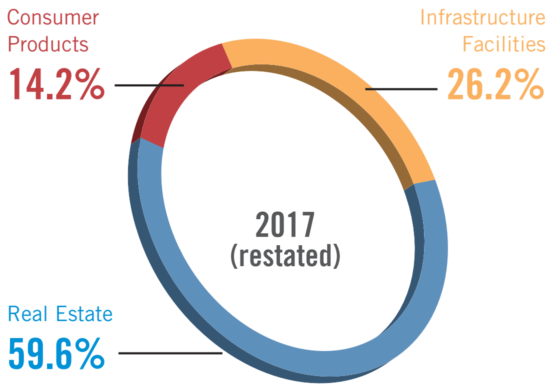
FINANCIAL REVIEW

3 Revenue

The Group's revenue by principal activities for the year 2018 and the comparatives of last year was summarized as follows:

	2018 HK$'000	2017 (restated) HK$'000	Change %
Infrastructure Facilities	8,805,425	7,725,036	14.0
Real Estate	17,201,802	17,608,919	-2.3
Consumer Products	4,405,656	4,186,370	5.2
	30,412,883	29,520,325	3.0





In 2018, the revenue amounted to approximately HK$30,412.88 million, representing a year-on-year increase of 3.0%, mainly due to the increase in construction revenue recorded by SIIC Environment of infrastructure facilities business, higher volume of sewage water treatment and water supply as well as the contributions from newly acquired companies which raised SIIC Environment's revenue by approximately HK$979.88 million.

The revenue of the real estate business decreased slightly, mainly due to the significant increase in sales of property ancillary facilities of SI Development compared last year, which was offset by a decline in property sales booked by SI Urban Development.

The revenue of Nanyang Tobacco remained stable while the moulded fibre packaging business of Wing Fat Printing recorded growth for the year. As a result, revenue from consumer products business increased by approximately 5.2% year-on-year.

FINANCIAL REVIEW

4 Profit before Taxation

(1) Gross profit margin

Compared to 2017, overall gross profit margin decreased by 1.8 percentage points, mainly due to an increase in the proportion of property ancillary facilities income with relatively low margin in the real estate business, resulting in a decrease in gross profit margin of approximately 2.3 percentage points. Meanwhile, gross profit margins for infrastructure facilities business and consumer products business remained stable during the year.

(2) Other income, gains and losses

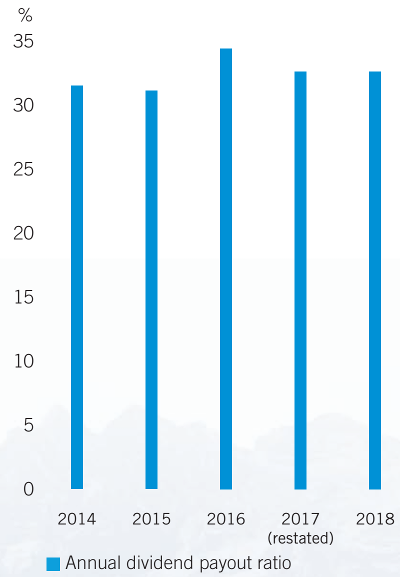
As Renminbi appreciated last year but reversed the rise during the year, net foreign exchange loss was recorded for the year while net foreign exchange gain was booked for last year.

(3) Gain on disposal of subsidiaries/interests in associates/interest in a joint venture

The gain for the year was mainly attributable to the disposal of a subsidiary which holds 26.01% equity interest in the Fuzhou real estate project and two water services project subsidiaries and a profit before taxation of HK$268.29 million was recorded. The gain for last year was mainly attributable to a profit before taxation 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.

5 Dividend

The Board of Directors of the Group has proposed to declare a final dividend of HK52 cents per share. Together with an interim dividend of HK48 cents per share, the total dividend amounted to HK100 cents per share for 2018 (2017: HK94 cents per share). Annual dividend payout ratio is 32.6% (2017: 32.6%).



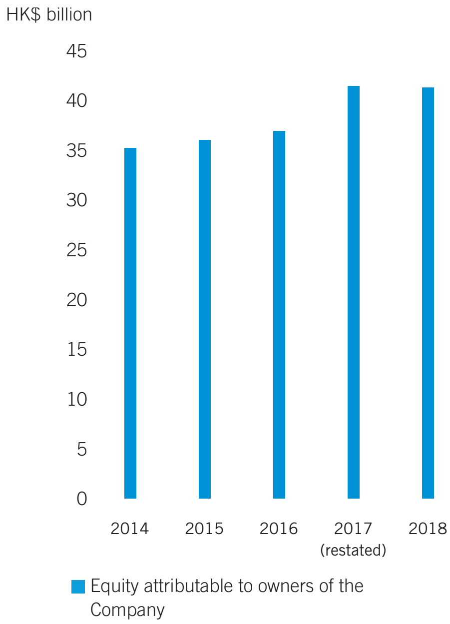
FINANCIAL REVIEW

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 2018, There is no change compared with 1,087,211,600 shares as at the end of 2017.

Equity attributable to owners of the Company reached HK$41,275.30 million as at 31 December 2018, 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

As at 31 December 2018, the total borrowings of the Group including bank borrowings and other borrowings amounted to approximately HK$51,518.20 million (31 December 2017: HK$53,212.36 million), of which 64.0% (31 December 2017: 64.0%) was unsecured credit facilities. The proportions of US dollars, Renminbi and HK dollars of total borrowings were 3%, 84% and 13% (31 December 2017: 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$11,459,467,000 (31 December 2017: HK$12,056,862,000);

(b) leasehold land and buildings with an aggregate carrying value of HK$134,605,000 (31 December 2017: HK$150,233,000);

(c) plant and machineries with an aggregate carrying value of HK$27,173,000 (31 December 2017: HK$34,601,000);

(d) one (31 December 2017: one) toll road operating right with a carrying value of HK$2,105,856,000 (31 December 2017: HK$2,410,356,000);

(e) receivables under service concession arrangements with an aggregate carrying value of HK$10,196,365,000 (31 December 2017: HK$10,131,288,000);

(f) properties under development held for sale with an aggregate carrying value of HK$2,873,025,000 (31 December 2017: HK$1,930,280,000);

(g) properties held for sale with an aggregate carrying value of HK$736,551,000 (31 December 2017: HK$338,443,000);

(h) trade receivables with an aggregate carrying value of HK$152,084,000 (31 December 2017: HK$10,694,000); and

(i) bank deposits with an aggregate carrying value of HK$628,045,000 (31 December 2017: HK$751,162,000).

(3) Contingent liabilities

As at 31 December 2018, the guarantees given to banks by the Group in respect of banking facilities utilised by property buyers and associates/joint ventures amounted to approximately HK$6,355.01 million and HK$1,648.58 million (31 December 2017: HK$4,652.21 million and HK$2,164.27 million) respectively.

3 Capital Commitments

As at 31 December 2018, the Group had capital commitments mainly contracted for business developments and investments in fixed assets of HK$12,254.67 million (31 December 2017: HK$5,800.32 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 2018, bank balances and short-term investments held by the Group amounted to HK$26,104.65 million (31 December 2017: HK$33,426.37 million) and HK$603.90 million (31 December 2017: HK$483.05 million) respectively. The proportions of US dollars and other currencies, Renminbi and HK dollars of bank balances were 3%, 83% and 14% (31 December 2017: 3%, 86% and 11%) 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's price risks are mainly concentrated on equity instruments quoted in the HKSE and the Shanghai Stock Exchange. The management strictly monitors this exposure by maintaining a portfolio of investments with different levels of risks. 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, contract assets, 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 and expected credit loss. An allowance for impairment and expected credit loss are 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

The Board adheres to sound governance principles and is dedicated to maintaining effective corporate governance practices. By perfecting risk management and internal control systems, we enhance corporate accountability and transparency, enabling us to monitor and supervise our business operation and financial performance, ensuring the long-term sustainability of the Company and protecting the ultimate benefits 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 2018. 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.

During the year, the Company formulated its Nomination Policy and Dividend Policy which correspond to revised provisions of the Corporate Governance Code, ensuring our compliance with relevant laws and regulations and enhancing our standard of corporate governance. The Nomination Policy aims at laying down procedures for the appointment of new members of the Board, and the Dividend Policy sets out principles for the Board's consideration before making any dividend distribution.

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 an 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 year
Zhou Jun	Vice Chairman & Chief Executive Officer	13.5 years
Xu Bo	Deputy CEO	7 years
Xu Zhan	–	4.5 years
Independent Non-Executive Director		
Woo Chia-Wei	–	23 years
Leung Pak To, Francis	–	23 years
Cheng Hoi Chuen, Vincent	–	6.5 years
Yuen Tin Fan, Francis	–	2.75 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 58 to 59 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 2018 and up to the date of this report, the following changes were made to the Board of the Company:

- On 28 February 2018, Mr. Wang Wei has retired as 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 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 an announcement 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 2018 annual general meeting, Mr. Zhou Jun, Prof. Woo Chia Wei and Mr. Cheng Hoi Chuen, Vincent, retired by rotation and were re-elected in accordance with the Company's articles of association. Mr. Shen Xiao Chu was re-elected and continued to act as Director in accordance with the Company's articles of association and the Corporate Governance Code.

At the upcoming 2019 annual general meeting, Mr. Xu Bo, Mr. Xu Zhan and Mr. Leung Pak To, Francis shall retire by rotation in accordance with the articles of association of the Company. All of them, being eligible, have offered themselves for re-election. As Mr. Leung Pak To, Francis 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. 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 2018, 16 board meetings were held by the Company (10 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 2018 is set out below:

	Meetings held in 2018					
	Meetings attended/Meetings held					
	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Number of meetings held in the year	**16**	**7**	**3**	**2**	**2**	**1**
Executive Director						
Shen Xiao Chu[1]	14/14	6/6	–	–	–	1/1
Zhou Jun	16/16	7/7	–	–	–	1/1
Xu Bo	16/16	7/7	–	–	–	1/1
Xu Zhan	16/16	–	–	–	–	1/1
Wang Wei[2]	2/2	1/1	–	–	–	0/0
Independent Non-Executive Director						
Woo Chia-Wei	16/16	–	2/3	2/2	2/2	1/1
Leung Pak To, Francis	15/16	–	3/3	2/2	2/2	1/1
Cheng Hoi Chuen, Vincent	16/16	–	3/3	2/2	2/2	1/1
Yuen Tin Fan, Francis	13/16	–	3/3	2/2	2/2	1/1
Committee Members						
Li Han Sheng	–	–	–	2/2	2/2	–
Tang Ming	–	–	–	2/2	2/2	–
Attendance	97%	100%	92%	100%	100%	100%

Notes:
1. Appointed on 28 February 2018.
2. Resigned on 28 February 2018.
3. 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 2018.

CORPORATE GOVERNANCE REPORT

Directors' Training

Based on the Directors' training records, the trainings received by each Director for the year ended 31 December 2018 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.

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 2018 and up to the date of this report, changes of the Executive Committee were as follows:

- 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 2018, the Executive Committee held seven meetings in the form of written resolutions. The matters considered mainly included subscription of shares of listed corporations, acquisition and disposal of project interest, capital injection and formation of subsidiaries by its subsidiaries.

Audit Committee

The Audit Committee is mainly responsible for reviewing accounting policies and practices adopted by the Group. The committee also reviews matters relating to financial reporting as well as risk management and internal control, selects, appoints and dismisses external auditor and monitors the Company's relationship with the auditor. It also reviews 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 2018, 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.

Under the revised provisions of the Corporate Governance Code, the cooling off period of appointing a former partner of the Company's auditor to be an independent non-executive director is extended from one year to two years. The Company made corresponding amendments to its Terms of Reference of the Audit Committee during the year which was considered and approved by the Board.

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 2018, the Remuneration Committee held two meetings (one of which was in the form of written resolutions). The matters considered included distribution and payment of discretionary bonuses to the Directors, proposed adjustments for the remuneration of Directors and senior management as well as a service agreement, 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 Company has formulated its Nomination Policy, which aims to lay down the nomination procedures for new members of the Board to ensure that the Board consists of members who are balanced in skill, experience and diversity in perspectives and satisfy the business requirements of the Company.

In selecting new directors or filling casual vacancies, the Nomination Committee will consider the candidate's professional qualification and skill, integrity and reputation, achievement and experience in the industry in which the Company operates, as well as his time commitment. The committee will nominate candidates it considers appropriate with reference to the standards 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.

According to the nomination procedures of the Nomination Policy, a committee meeting will be convened and Board members will be invited to nominate candidates, while candidates recommended by senior management or controlling shareholder of the Company will also be considered. Suitable candidates will then be submitted to the Board for consideration and approval. Directors appointed by the Board will retire and are eligible for re-election at the forthcoming general meeting after their appointment. A circular containing information of the directors to be re-elected will be sent to shareholders for their reference in relation to their voting as required by Rule 13.51(2) of the Listing Rules.

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 2018, the Nomination Committee held two meetings 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.

Under the revised provisions of the Corporate Governance Code, where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out relevant content in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting. Therefore, the Company made corresponding amendments to its Terms of Reference of the Nomination Committee during the year which was considered and approved by the Board.

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, investment operations, legal 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 respective functional departments at the Hong Kong headquarters and the Shanghai regional office. Current members of the committee are the Head of the Investment Operations Department, the Company Secretary and Chief Legal and Compliance Officer, the Chief Financial Officer and representative(s) from the Shanghai regional office. During the year, the Investment Appraisal Committee conducted appraisals on 12 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 60 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 2019, subject to approval by shareholders at the annual general meeting to be held on 23 May 2019.

The audit fee of the external auditor for 2018 amounted to HK$18,831,000. 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	2018 HK$'000	2017 HK$'000
Financial due diligence of acquisition project and auditor's report fee	393	8,982
Tax consultation fee	420	535
Others	1,213	27
Total	**2,026**	9,544

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 68 and 72 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 2018, 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 2018, SIIC, the controlling shareholder of the Company, indirectly held 652,177,748 shares of the Company (excluding the interest in the underlying shares and short positions) with a shareholding percentage at approximately 59.99% (excluding the underlying shares). The percentage of public shareholding was approximately 40.01%.

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 an announcement 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.

Dividend Policy

In accordance with revised provisions of Corporate Governance Code, the Company formulated its Dividend Policy to set out principles for the Board's consideration before making any dividend distribution. According to the Dividend Policy, dividends can only be paid out of profits and the Company may elect to make the distribution in cash, in specie or in scripts. The payout ratio shall be determined at the discretion of the Board, but there is no guarantee for dividend distribution. The decision of dividend distribution (if any) will be made after taking into account the financial, legal taxation and internal conditions of the Company as well as dividends receivable from subsidiaries and global market condition. Generally speaking, all shares will rank pari passu in terms of dividend entitlement. After considering the plan and proposal of the management, the Board may, at its discretion, propose or decide to distribute interim dividends. Final dividends shall be proposed to the shareholders for approval.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

In line with its overall business development stratey, the Company actively strengthened communication with investors and media through a variety of channels to promote its presence in the investment market. During the year, we organized post-results non-deal roadshows and luncheons with fund managers, and participated in different types of conferences held by investment banks. In early December, a reverse roadshow was organised in Shanghai with the participation of analysts and investors from Hong Kong and the mainland China. Participants were given tours to visit the Group's real estates, water services and bridge projects in Shanghai. The event enabled investors to understand the operation of each business segment, and discussions were made with the management of project companies. It enhanced their knowledge and understanding of the Company's business development and strategies, and further established and strengthened the Company's image in the investment market.

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$1,539 million for the year (2017: HK$1,416 million). Details of Directors' remuneration paid for the year ended 31 December 2018 are set out in note 12 to the financial statements. The remuneration payable to the top five of management staff of the Company by band for the year ended 31 December 2018 was as follows:

Remuneration by band (HK$)	2018 Number of individuals
1,000,001 – 2,000,000	1
2,000,001 – 3,000,000	4
	5

Share Options

The Company adopted the SIHL Scheme at the extraordinary general meeting held on 25 May 2012. Up to 31 December 2018, no share options were granted or outstanding under the SIHL 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 SI Urban Development New Scheme was adopted at the annual general meeting held on 16 May 2014. Up to 31 December 2018, 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.

SI Environment, a subsidiary of the Company, adopted the SI Environment Scheme at the extraordinary general meeting held on 27 April 2012. Up to 31 December 2018, no share options were granted or outstanding under the SI Environment Scheme.

Details of the SIHL Scheme, SI Urban Development Scheme, SI Urban Development New Scheme and SI Environment Scheme are set out in note 39 to the financial statements.

By Order of the Board
Yee Foo Hei
Company Secretary

28 March 2019

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. SHEN Xiao Chu *Executive Director, Chairman*

(Appointed on 28 February 2018 ~ Present)

Mr. Shen, aged 57, 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 50, is an executive director and the president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also the non-executive chairman of SIIC Environment Holdings Ltd., the chairman of SIIC Management (Shanghai) Ltd., Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Luqiao Development Co., Ltd., Shanghai Shen-Yu Development Co., Ltd. and 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, the president of Shanghai Youth Entrepreneurs Association and the president of Shanghai Association of Environmental Protection Industry. 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 57, is an executive director, vice president and chief financial controller of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also the chairman of Nanyang Brothers Tobacco Company, Limited and a director of certain other subsidiaries of the Group. Mr. Xu holds a bachelor's degree and a master's degree in business administration and is designated a deputy professor. He 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.

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 and chief financial officer 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 a director, general manager and assistant general manager of Shanghai Galaxy Investment Co., Ltd., the chairman of SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd. and assistant general manager of the finance and planning department of SIIC. 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 81, 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 64, 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 70, 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, 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.

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

(Appointed on 15 July 2016 ~ Present)

Mr. Yuen, aged 66, 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 board of Ortus Capital Management Limited, and a member of the board of trustees of University of Chicago and Fudan University in Shanghai.

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Mr. LI Han Sheng

Mr. Li, aged 55, 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 52, was appointed a Deputy CEO of the Company in November 2016. He is an executive director and the chief executive officer of SIIC Environment Holdings Ltd., a director of Nanyang Brothers Tobacco Company, Limited, the vice chairman of General Water of China Co., Ltd. and a director of certain other subsidiaries of the Group. 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 (Shanghai) Limited. He has over 20 years' experience in corporate management and investment planning.

PROFESSIONAL STAFF

Mr. YEE Foo Hei, Jackson

Mr. Yee, aged 55, 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 30 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 51, 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, and also holds a master's degree in financial management awarded by the University of London. Ms. Chan is a member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Chinese Institute of Certified Public Accountants. She has extensive working experience in banking and accounting professions.

SENIOR MANAGEMENT OF MEMBER COMPANIES

Mr. ZENG Ming

Mr. Zeng, aged 48, is a director of Shanghai Industrial Investment (Holdings) Company Limited. He is also the chairman of Shanghai Industrial Development Co., Ltd. and Shanghai Industrial Urban Development Group Limited. Mr. Zeng graduated from Shanghai Urban Construction Vocational Institute with a bachelor of Engineering and holds the designation of a senior engineer. He 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 and has over 20 years' experience in corporation management.

DIRECTORS' AND SENIOR MANAGEMENT PROFILES

Mr. TANG Jun

Mr. Tang, aged 51, is a director and president of Shanghai Industrial Development Co., Ltd. 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. ZHOU Xiong

Mr. Zhou, aged 52, is an assistant president of Shanghai Industrial Investment (Holdings) Company Limited. He is also the vice chairman and president of Shanghai Industrial Urban Development Group Limited. Mr. Zhou graduated from the Department of Finance of the School of Economics, Xiamen University with a doctorate degree in economics. He also received a master's degree in executive business administration from Peking University. He was previously the issuance manager of the Xiamen operations department of華夏證券有限公司, deputy director of the corporate management department of the People's Daily Bureau, deputy general manager of 廈門聯合信託投資有限責任公司 and director and president of Zhongtai Trust Co., Ltd.

Mr. YANG Jian Wei

Mr. Yang, aged 47, is a director and the general manager of SIIC Management (Shanghai) Ltd. and a director and a member of the supervisory committee of certain other subsidiaries of the Group. He graduated from Huazhong University of Science and Technology and Shanghai Jiaotong University with a bachelor's degree in engineering, a master's degree in management engineering and a doctoral degree in management. Mr. Yang worked for China National Nonferrous Materials Co., Ltd. and Hong Yuan Securities Co., Ltd. Mr. Yang joined Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") in June 2004, and was an assistant general manager of Shanghai Galaxy Investment Co., Ltd., assistant general manager of the board of directors' office, secretary to chairman of SIIC and Assistant CEO of the Company. He has nearly 20 years' experience of financial investment, security research, investment banking and project planning.

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 58, 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 46, is a director and the general manager of Nanyang Brothers Tobacco Company, Limited, the chairman of The Wing Fat Printing Company, Limited and a director of certain other subsidiaries of the Group. He is also the chairman of The Tien Chu (Hong Kong) Company Limited. Mr. Yang graduated from East China University of Science and Technology with a master's degree and holds the designation of senior engineer and economist. He was a vice president of SIIC Investment (Shanghai) Co., Ltd., the vice chairman and general manager of SIIC Investment Company Limited, the chairman of 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. JIN Guo Ming

Mr. Jin, aged 58, 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 2018.

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 2018 are set out in notes 51, 52 and 53 to the consolidated financial statements respectively.

BUSINESS REVIEW

A fair review of the Group's business including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, is set out in the section of "Business Review, Discussion and Analysis" set out on pages 10 to 38 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 46 to 57 of this Annual Report.

Such discussion forms part of this Directors' Report.

PERFORMANCE AND DISTRIBUTION

The results of the Group for the year ended 31 December 2018 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 73 to 81 of this Annual Report.

An interim dividend of HK48 cents per share amounting to HK$521,861,000 was paid to the shareholders during the year. The Directors recommend the payment of a final dividend of HK52 cents per share to the shareholders whose names appear on the register of members of the Company on 29 May 2019.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the year ended 31 December 2018 and the previous four years is set out on page 205 of this Annual Report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2018 represented retained profits of HK$17,503,927,000 (2017: HK$16,270,596,000).

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)

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.

The biographical details of the Directors are set out on pages 58 to 61 of this Annual Report. Details of Directors' emoluments are set out in note 12 to the consolidated financial statements.

In accordance with the Company's articles of association, the Directors of the Company (including the Independent Non-Executive Directors) shall be subject to retirement by rotation at each annual general meeting. Mr. Xu Bo, Mr. Xu Zhan and Mr. Leung Pak To, Francis shall retire by rotation at the forthcoming annual general meeting. All of them, being eligible, have offered themselves for re-election at the 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 2018 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 2018 and up to the date of this report, the Company has in force permitted indemnity provisions for the benefits of the directors of the Company (including former directors) or of its associated companies.

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

Changes in Directors' information since the date of the interim report 2018 and up to the date of this report are set out below:

Mr. Yuen Tian Fan
- appointed as the chairman of the board of Ortus Capital Management Limited ("Ortus") on 28 January 2019.
- resigned as the chairman of the advisory board of Ortus on 28 January 2019.

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

At 31 December 2018, 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 shares
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 2018.

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 39 to the consolidated financial statements.

(I) SIHL Scheme

The SIHL 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 Scheme.

(II) 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 1.1.2018 and 31.12.2018
Category 1: Directors of SI Urban Development	24.9.2010	2.98	21,000,000
Category 2: Employees of SI Urban Development	24.9.2010	2.98	6,750,000
Total for all categories			27,750,000

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)

(III) 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.

(IV) 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 37 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 entire outstanding balance of HK$32,000,000 of the bonds 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 Hong Kong Companies Ordinance) of the Company was a party to any other arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during or at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, 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 shares
SIIC	Interests held by controlled corporations	Corporate	652,177,748 *(Notes 1 and 2)*	59.99%

Notes:

1. SIIC through its subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, Shanghai Industrial Financial (Holdings) Company Limited and SIIC CM Development Limited held 519,409,748 shares, 80,000,000 shares, 52,758,000 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 2018.

CONNECTED TRANSACTIONS

Details of the connected transactions and continuing connected transactions for the year are set out in note 48(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 48(II) to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$995,000.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 47 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, 40.01% 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 2018.

CORPORATE GOVERNANCE

The corporate governance principles and practices adopted by the Company are set out in the Corporate Governance Report on pages 46 to 57 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 2019

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 73 to 204, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

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 2018. As disclosed in Note 5 to the consolidated financial statements, SIIC Environment is dual listed on the Main Board of Singapore Exchange Securities Trading Limited and The Stock Exchange of Hong Kong. The Group had only 46.67% ownership interest and voting rights in SIIC Environment as at 31 December 2018. 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 2018.	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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter

Valuation of investment properties

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

As disclosed in Note 15 to the consolidated financial statements, the fair values of the Group's investment properties amounted to HK$19,372,125,000 as at 31 December 2018 with a decrease in fair value of investment properties of HK$175,216,000 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 2018 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 15 to the consolidated financial statements. The fair values are dependent on certain significant unobservable inputs that involve judgment and estimation made by the management of the Group together with the Valuer, including, among other factors, reversionary yield, adjustments to transaction prices and discount rates.

How our audit addressed the key audit matter

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

- Evaluating the competence, capabilities and objectivity of the Valuer;

- Obtaining an understanding from the Valuer and the management of the Group on the valuation process to understand the performance of property markets, significant assumptions adopted and data used in the valuations;

- Evaluating the reasonableness of the methodologies adopted in the valuation models; and

- Assessing the reasonableness of the significant unobservable inputs used in the 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.

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

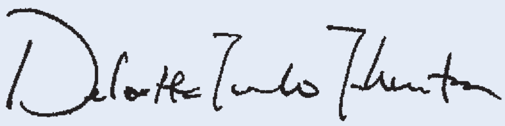
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely 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
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	NOTES	**2018 HK$'000**	2017 HK$'000 (restated)
Revenue	6	30,412,883	29,520,325
Cost of sales		(18,764,622)	(17,678,032)
Gross profit		11,648,261	11,842,293
Net investment income	7	530,558	850,218
Other income, gains and losses		990,267	1,093,811
Selling and distribution costs		(1,130,901)	(1,080,824)
Administrative and other expenses		(2,254,870)	(2,385,564)
Finance costs	8	(1,969,449)	(1,799,378)
Share of results of joint ventures		196,436	231,782
Share of results of associates		244,589	390,048
Gain on disposal of subsidiaries/interests in associates/interest in a joint venture	9	268,292	229,270
Profit before taxation		8,523,183	9,371,656
Income tax expense	10	(3,429,512)	(4,236,931)
Profit for the year	11	5,093,671	5,134,725
Profit for the year attributable to			
– Owners of the Company		3,333,020	3,135,182
– Non-controlling interests		1,760,651	1,999,543
		5,093,671	5,134,725
		HK$	HK$
Earnings per share	14		
– Basic		3.066	2.884
– Diluted		3.065	2.882

The notes on pages 82 to 204 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 2018

	2018 HK$'000	2017 HK$'000 (restated)
Profit for the year	5,093,671	5,134,725
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss		
Fair value change on equity instruments at fair value through other comprehensive income held by subsidiaries, net of tax	(18,157)	–
Items that may be subsequently reclassified to profit or loss		
Exchange differences arising on translation of foreign operations		
– subsidiaries	(3,634,072)	4,100,249
– joint ventures	(172,698)	270,224
– associates	(192,783)	354,280
Fair value change on available-for-sale investments held by subsidiaries	–	12,539
Reclassification on derecognition of available-for-sale investments held by subsidiaries	–	(45,478)
Reclassification of translation reserve upon disposal of associates	–	(7,650)
Other comprehensive (expense) income for the year	(4,017,710)	4,684,164
Total comprehensive income for the year	1,075,961	9,818,889
Total comprehensive (expense) income for the year attributable to		
– Owners of the Company	1,187,685	5,763,055
– Non-controlling interests	(111,724)	4,055,834
	1,075,961	9,818,889

The notes on pages 82 to 204 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	31.12.2018 HK$'000	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Non-Current Assets				
Investment properties	15	19,372,125	22,629,653	18,637,786
Property, plant and equipment	16	5,542,064	5,027,205	4,392,813
Prepaid lease payments – non-current portion	17	227,448	254,159	243,135
Toll road operating rights	18	8,413,587	9,718,405	9,812,934
Goodwill	19	800,097	848,012	809,347
Other intangible assets	20	7,734,021	7,895,262	7,325,733
Interests in joint ventures	21	3,355,941	3,861,399	3,467,597
Interests in associates	22	6,482,054	5,076,505	3,378,695
Investments	23	1,004,038	820,747	1,192,415
Receivables under service concession arrangements – non-current portion	24	17,874,120	15,875,734	12,489,936
Deposits paid on acquisition of investment properties/property, plant and equipment	25	846,196	526,706	139,974
Other non-current receivables	26	18,515	26,739	58,732
Deferred tax assets	27	399,097	320,781	468,745
		72,069,303	72,881,307	62,417,842
Current Assets				
Inventories	28	57,825,834	52,833,604	46,588,061
Trade and other receivables	29	8,363,616	12,376,498	10,288,992
Contract assets	30	925,371	–	–
Prepaid lease payments – current portion	17	5,413	5,707	5,293
Investments	23	603,904	483,045	226,967
Receivables under service concession arrangements – current portion	24	426,874	330,247	244,374
Amounts due from customers for contract work	31	–	1,291,540	710,079
Prepaid taxation		868,526	753,827	503,469
Pledged bank deposits	32	628,045	751,162	430,853
Short-term bank deposits	32	344,134	537,466	309,705
Bank balances and cash	32	25,132,470	32,137,738	31,533,394
		95,124,187	101,500,834	90,841,187
Assets classified as held for sale	41	225,955	–	–
		95,350,142	101,500,834	90,841,187

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**31.12.2018 HK$'000**	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Current Liabilities				
Trade and other payables	33	17,593,000	19,289,195	16,067,133
Amounts due to customers for contract work	31	–	20,084	23,879
Contract liabilities	34	15,288,349	–	–
Customer deposits from sales of properties	35	–	16,579,420	14,847,476
Taxation payable		4,145,234	4,306,790	4,219,271
Bank and other borrowings	36	12,921,483	11,816,974	8,553,493
Convertible bonds	37	–	33,449	32,722
		49,948,066	52,045,912	43,743,974
Liabilities associated with assets classified as held for sale	41	179,532	–	–
		50,127,598	52,045,912	43,743,974
Net Current Assets		45,222,544	49,454,922	47,097,213
Total Assets less Current Liabilities		117,291,847	122,336,229	109,515,055
Capital and Reserves				
Share capital	38	13,649,839	13,649,839	13,633,449
Reserves		27,625,457	28,092,727	23,460,587
Equity attributable to owners of the Company		41,275,296	41,742,566	37,094,036
Non-controlling interests		28,227,672	29,445,374	25,637,359
Total Equity		69,502,968	71,187,940	62,731,395
Non-Current Liabilities				
Provision for major overhauls	24	87,325	85,333	82,077
Bank and other borrowings	36	38,560,014	41,305,437	37,863,971
Deferred tax liabilities	27	9,141,540	9,757,519	8,837,612
		47,788,879	51,148,289	46,783,660
Total Equity and Non-Current Liabilities		117,291,847	122,336,229	109,515,055

The notes on pages 82 to 204 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 73 to 204 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Zhou Jun
Chief Executive Officer

Xu Bo
Deputy Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company											Attributable to non-controlling interests			
	Share capital HK$'000	Share options reserve HK$'000	Convertible bonds equity reserve HK$'000	Other revaluation reserve HK$'000 (note i)	Other reserve HK$'000 (note ii)	Merger reserve HK$'000 (note iii)	Investment revaluation reserve HK$'000	Translation reserve HK$'000	PRC statutory reserves HK$'000 (note iv)	Retained profits HK$'000	Sub-total HK$'000	Share options reserve of listed subsidiaries HK$'000	Share of net assets of subsidiaries HK$'000	Sub-total HK$'000	Total HK$'000
At 1 January 2017 (audited and as previously reported)	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
Effect of inclusion of Shangtou Real Estate Group (Note 2)	–	–	–	–	–	186,830	–	–	8,732	(17,815)	177,747	–	81,131	81,131	258,878
At 1 January 2017 (restated)	13,633,449	1,928	939	54,855	2,034,247	(5,590,355)	382,026	(587,664)	1,567,141	25,597,470	37,094,036	48,202	25,589,157	25,637,359	62,731,395
Profit for the year, as restated	–	–	–	–	–	–	–	–	–	3,135,182	3,135,182	–	1,999,543	1,999,543	5,134,725
Exchange differences arising on translation of foreign operations															
– subsidiaries, as restated	–	–	–	–	–	–	–	2,062,934	–	–	2,062,934	–	2,037,315	2,037,315	4,100,249
– 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
Release of reserve upon deemed disposal of available-for-sale investments	–	–	–	–	–	–	(45,478)	–	–	–	(45,478)	–	–	–	(45,478)
Reclassification of translation reserve upon disposal of associates	–	–	–	–	–	–	–	(7,213)	(15,252)	15,252	(7,213)	–	(437)	(437)	(7,650)
Total comprehensive (expense) income for the year (restated)	–	–	–	–	–	–	(52,352)	2,680,225	(15,252)	3,150,434	5,763,055	–	4,055,834	4,055,834	9,818,889
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	–	–	–	–	(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 40)	–	–	–	–	–	–	–	–	–	–	–	–	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)
Distribution by species (restated)	–	–	–	–	–	–	–	–	(8,732)	(3,059)	(11,791)	–	(6,929)	(6,929)	(18,720)
Dividends paid (Note 13)	–	–	–	–	–	–	–	–	–	(1,000,234)	(1,000,234)	–	–	–	(1,000,234)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(550,857)	(550,857)	(550,857)
Dividends declared by S.I. Yield Express Limited 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 (restated)	13,649,839	–	939	54,855	1,977,211	(5,590,355)	329,674	2,092,561	1,823,013	27,404,829	41,742,566	31,892	29,413,482	29,445,374	71,187,940

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										Attributable to non-controlling interests			
	Share capital HK$'000	Convertible bonds equity reserve HK$'000	Other revaluation reserve HK$'000 (note i)	Other reserve HK$'000 (note ii)	Merger reserve HK$'000 (note iii)	Investment revaluation reserve HK$'000	Translation reserve HK$'000	PRC statutory reserves HK$'000 (note iv)	Retained profits HK$'000	Sub-total HK$'000	Share options reserve of listed subsidiaries HK$'000	Share of net assets of subsidiaries HK$'000	Sub-total HK$'000	Total HK$'000
At 1 January 2018 (restated)	13,649,839	939	54,855	1,977,211	(5,590,355)	329,674	2,092,561	1,823,013	27,404,829	41,742,566	31,892	29,413,482	29,445,374	71,187,940
Effect of application of HKFRS 9 (Note 3)	–	–	–	–	–	(31,888)	–	–	31,888	–	–	–	–	–
At 1 January 2018 (restated)	13,649,839	939	54,855	1,977,211	(5,590,355)	297,786	2,092,561	1,823,013	27,436,717	41,742,566	31,892	29,413,482	29,445,374	71,187,940
Profit for the year	–	–	–	–	–	–	–	–	3,333,020	3,333,020	–	1,760,651	1,760,651	5,093,671
Exchange differences arising on translation of foreign operations														
– subsidiaries	–	–	–	–	–	–	(1,744,476)	–	–	(1,744,476)	–	(1,889,596)	(1,889,596)	(3,634,072)
– joint ventures	–	–	–	–	–	–	(172,698)	–	–	(172,698)	–	–	–	(172,698)
– associates	–	–	–	–	–	–	(192,783)	–	–	(192,783)	–	–	–	(192,783)
Fair value change on equity investments at fair value through other comprehensive income held by subsidiaries, net of tax	–	–	–	–	–	(35,378)	–	–	–	(35,378)	–	17,221	17,221	(18,157)
Total comprehensive (expense) income for the year	–	–	–	–	–	(35,378)	(2,109,957)	–	3,333,020	1,187,685	–	(111,724)	(111,724)	1,075,961
Transfer upon maturity of convertible bonds	–	(939)	–	–	–	–	–	–	939	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	379,243	(379,243)	–	–	–	–	–
Capital contributions by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	297,463	297,463	297,463
Acquisition of subsidiaries (Note 40)	–	–	–	–	–	–	–	–	–	–	–	111,261	111,261	111,261
Acquisition of additional interest in a listed subsidiary	–	–	–	9,866	–	–	–	–	–	9,866	–	(32,906)	(32,906)	(23,040)
Acquisition of additional interests in subsidiaries (note vi)	–	–	–	(298,906)	–	–	–	–	–	(298,906)	–	(913,180)	(913,180)	(1,212,086)
Disposal of a subsidiary (Note 42)	–	–	–	–	–	–	–	–	–	–	–	(784)	(784)	(784)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(2,856)	(2,856)	(2,856)
Distributions of carved-out assets and liabilities of subsidiaries (note v)	–	–	–	–	(322,192)	–	–	–	–	(322,192)	–	–	–	(322,192)
Dividends paid (Note 13)	–	–	–	–	–	–	–	–	(1,043,723)	(1,043,723)	–	–	–	(1,043,723)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(564,976)	(564,976)	(564,976)
At 31 December 2018	13,649,839	–	54,855	1,688,171	(5,912,547)	262,408	(17,396)	2,202,256	29,347,710	41,275,296	31,892	28,195,780	28,227,672	69,502,968

The notes on pages 82 to 204 are in 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) As detailed in Note 2, the Group through a listed subsidiary namely Shanghai Industrial Urban Development Group Limited ("SI Urban Development") acquired Shangtou Real Estate Group (as defined in Note 2). The acquisition was completed in April 2018 and certain assets and liabilities with carrying amounts of HK$332,516,000 and HK$10,324,000 respectively, of Shangtou Real Estate Group were carved-out and distributed to an entity controlled by Shangtou Asset (as defined in Note 2) at nil consideration. This transaction is regarded as distribution to SIIC and the carrying amount of the net assets being carved-out and derecognised is debited to merger reserve.

(vi) The amount is mainly arisen from a further acquisition of 49% equity interest in Quanzhou Shangshi Investment (as defined in Note 40) with a consideration of RMB978,180,000 (equivalent to HK$1,113,847,000) by a non-wholly owned listed subsidiary of the Group, Shanghai Industrial Development Co., Ltd. ("SI Development"). Upon the completion of the acquisition, Quanzhou Shangshi Investment became a wholly-owned subsidiary of SI Development. The Group accounted for this acquisition as an equity transaction and the difference between the consideration paid and the increase of the Group's interest in Quanzhou Shangshi Investment's net assets amounting to approximately HK$301 million was recorded in other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	8,523,183	9,371,656
Adjustments for:		
Amortisation of other intangible assets	357,460	339,871
Amortisation of toll road operating rights	836,761	805,438
Depreciation of property, plant and equipment	459,311	386,227
Dividend income from equity investments	(17,636)	(6,703)
Finance costs	1,969,449	1,799,378
Gain from bargain purchase of interest in subsidiaries	(24,176)	(8,097)
Gain on disposal of available-for-sale investments	–	(14,881)
Gain on disposal of subsidiaries/interests in associates/interest in a joint venture	(268,292)	(229,270)
Gain on land resumption	(538,579)	–
Impairment loss on financial assets	55,520	34,710
Impairment loss on inventories, other than properties	–	12,601
Impairment loss on properties held for sale	80,662	280,519
Impairment loss on goodwill	24,021	–
Decrease (increase) in fair value of investment properties	175,216	(65,207)
Change in fair value of financial assets at FVTPL	93,654	–
Interest income	(604,559)	(758,858)
Net loss on disposal/written off of property, plant and equipment	394	4,392
Provision for major overhauls	416	54
Release of prepaid lease payments	7,638	7,517
Reversal of impairment loss on financial assets	(5,316)	(38,599)
Reversal of impairment loss on other intangible assets	–	(28,229)
Reversal of impairment loss on other receivables	(14,259)	(4,896)
Reversal of impairment loss of inventories, other than properties	(10,312)	–
Share of results of associates	(244,589)	(390,048)
Share of results of joint ventures	(196,436)	(231,782)
Operating cash flows before movements in working capital	10,659,531	11,265,793
Increase in inventories	(4,234,609)	(178,351)
Increase in financial assets at fair value through profit or loss ("FVTPL")	(253,926)	(37,312)
Decrease in trade and other receivables	2,416,112	190,159
Increase in receivables under service concession arrangements	(2,770,166)	(2,038,046)
Net movement in amounts due to customers for contract work	–	(532,430)
Decrease in contract assets	432,916	–
Decrease in contract liabilities	(2,159,126)	–
Increase (decrease) in trade and other payables	96,902	(974,898)
Decrease in customer deposits from sales of properties	–	(420,383)
Decrease in provision for major overhauls	(5,940)	(3,021)
Cash generated from operations	4,181,694	7,271,511
PRC Enterprise Income Tax ("EIT") paid	(1,968,847)	(2,170,224)
PRC Land Appreciation Tax ("LAT") paid	(1,625,672)	(1,889,274)
Hong Kong Profits Tax paid	(227,764)	(179,562)
NET CASH FROM OPERATING ACTIVITIES	359,411	3,032,451

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000 (restated)
INVESTING ACTIVITIES			
Capital injection to joint ventures		(836,897)	(397)
Prepayment for acquisition of land parcels		(694,669)	–
Purchase of operating concessions		(630,953)	(281,538)
Acquisition of Shangtou Real Estate		(628,942)	–
Purchase of property, plant and equipment		(609,166)	(872,058)
Acquisition of associates		(405,458)	(1,238,198)
Purchase of investments		(257,178)	(414,677)
Subsequent expenditures on investment properties		(223,944)	(180,179)
Deposits paid on acquisition of property, plant and equipment	25	(107,095)	(386,732)
Acquisition of subsidiaries	40	(47,030)	(243,151)
Repayment from a related party		820,116	335,203
Proceeds from land resumption		640,977	–
Interest received		590,035	758,857
Increase (decrease) in restricted/pledged/short-term bank deposits		316,449	(542,759)
Deposits received from the disposal of a subsidiary		235,171	–
Proceeds of disposal of interests in subsidiaries	42	218,850	339,290
Dividends received from associates		156,873	324,874
Dividends received from joint ventures		129,952	108,601
Proceeds from disposal of property, plant and equipment		67,124	83,006
Proceeds from disposal of investments		33,260	201,109
Dividends received from equity investments		17,636	6,703
Proceeds from disposal of interests in associates		2,198	45,381
Repayment of consideration payables for acquisition of subsidiaries		–	(385,976)
Acquisition of Quanzhou Shangshi Investment	40	–	158,467
Disposal of operating concession		–	58,112
Proceeds from disposal of an investment property	15	–	5,676
NET CASH USED IN INVESTING ACTIVITIES		(1,212,691)	(2,120,386)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	**2018 HK$'000**	2017 HK$'000 (restated)
FINANCING ACTIVITIES			
Repayment of bank and other borrowings		(14,343,998)	(14,580,235)
Interest paid		(2,745,919)	(2,370,846)
Acquisition of additional interests in subsidiaries		(1,212,086)	(297,336)
Dividends paid		(1,043,723)	(1,000,234)
Dividends paid to non-controlling interests		(564,976)	(550,857)
Repayment to related parties		(355,566)	–
Repurchase of convertible bonds	37	(33,538)	–
Acquisition of additional interests in a listed subsidiary		(23,040)	(27,867)
Return of capital to non-controlling interest upon deregistration of a subsidiary		(2,856)	–
Bank and other borrowings raised		15,054,246	16,774,489
Capital contributions by non-controlling interests		297,463	47,985
Advances from fellow subsidiaries		120	182
Dividends declared by Yield Express and payable to SIIC		–	(73,675)
Repurchase of shares by a listed subsidiary		–	(481)
Acquisition of a subsidiary from SIIC		–	(287)
Advances from a related party		–	473,559
Proceeds from issue of shares upon exercise of share options		–	15,297
Capital contribution from a non-controlling shareholder of a subsidiary upon capitalisation of its advance to the Group		–	2,076
NET CASH USED IN FINANCING ACTIVITIES		(4,973,873)	(1,588,230)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,827,153)	(676,165)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		32,137,738	31,533,394
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(1,178,115)	1,280,509
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		25,132,470	32,137,738

The notes on pages 82 to 204 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 51, 52 and 53, respectively.

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

2. MERGER ACCOUNTING FOR A BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

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

In April 2018, the Group, through a listed subsidiary namely SI Urban Development, acquired 100% equity interest in 上海市上投房地產投資有限公司 (Shanghai Shangtou Real Estate Investment Co., Ltd.) ("Shangtou Real Estate") (together with its subsidiaries collectively referred to as "Shangtou Real Estate Group"), from SIIC excluding certain carved-out investment properties and inventories, at a cash consideration of RMB530,827,000 (equivalent to HK$657,086,000). Pursuant to terms and conditions set out in the acquisition agreement, certain assets and liabilities of Shangtou Real Estate Group would be transferred to an entity controlled by 上海上投資產經營有限公司 (Shanghai Shangtou Asset Operations Co., Ltd.) ("Shangtou Asset") at nil consideration prior to the completion of the acquisition. Shangtou Real Estate was established in the PRC and principally engaged in land development.

In applying AG 5 to the acquisition of Shangtou Real Estate, the consolidated statement of financial position of the Group as at 1 January 2017 and 31 December 2017 have been restated to include the assets and liabilities of Shangtou Real Estate Group as if they were within the Group on these respective dates (see below for the financial impact). The consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2017 have also been restated to include the financial performance, changes in equity and cash flows of Shangtou Real Estate Group as if they were within the Group since 1 January 2017 (also see below for financial impact).

2. MERGER ACCOUNTING FOR A BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

The effects of acquisition of Shangtou Real Estate Group using merger accounting on the consolidated statement of profit or loss for the year ended 31 December 2017 are as follows:

	HK$'000 (as previously reported)	Business combination of entities under common control HK$'000	HK$'000 (restated)
Revenue	29,504,287	16,038	29,520,325
Cost of sales	(17,678,032)	–	(17,678,032)
Gross profit	11,826,255	16,038	11,842,293
Net investment income	850,218	–	850,218
Other income, gains and losses	1,106,141	(12,330)	1,093,811
Selling and distribution costs	(1,080,602)	(222)	(1,080,824)
Administrative and other expenses	(2,378,922)	(6,642)	(2,385,564)
Finance costs	(1,781,329)	(18,049)	(1,799,378)
Share of results of joint ventures	231,782	–	231,782
Share of results of associates	390,048	–	390,048
Gain on disposal of interests in associates	229,270	–	229,270
Profit (loss) before taxation	9,392,861	(21,205)	9,371,656
Income tax expense	(4,235,224)	(1,707)	(4,236,931)
Profit (loss) for the year	5,157,637	(22,912)	5,134,725
Profit (loss) for the year attributable to			
– Owners of the Company	3,150,472	(15,290)	3,135,182
– Non-controlling interests	2,007,165	(7,622)	1,999,543
	5,157,637	(22,912)	5,134,725

	HK$ (as previously reported)	HK$	HK$ (restated)
Earnings per share			
– Basic	2.898	(0.014)	2.884
– Diluted	2.897	(0.015)	2.882

2. MERGER ACCOUNTING FOR A BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

The effects of acquisition of Shangtou Real Estate Group using merger accounting on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 are as follows:

	HK$'000 (as previously reported)	Business combination of entities under common control HK$'000	HK$'000 (restated)
Profit (loss) for the year	5,157,637	(22,912)	5,134,725
Other comprehensive income for the year	4,666,702	17,462	4,684,164
Total comprehensive income (expense) for the year	9,824,339	(5,450)	9,818,889
Total comprehensive income (expense) for the year attributable to			
– Owners of the Company	5,766,297	(3,242)	5,763,055
– Non-controlling interests	4,058,042	(2,208)	4,055,834
	9,824,339	(5,450)	9,818,889

2. MERGER ACCOUNTING FOR A BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

The effects of acquisition of Shangtou Real Estate Group using merger accounting on the consolidated statement of financial position as at 31 December 2017 and 1 January 2017 are as follows:

	31.12.2017 HK$'000 (as previously reported)	Business combination of entities under common control HK$'000 (note)	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (as previously reported)	Business combination of entities under common control HK$'000 (note)	1.1.2017 HK$'000 (restated)
Non-Current Assets						
Investment properties	22,615,656	13,997	22,629,653	18,619,278	18,508	18,637,786
Property, plant and equipment	5,026,406	799	5,027,205	4,388,915	3,898	4,392,813
Investments	796,723	24,024	820,747	1,170,084	22,331	1,192,415
Deferred tax assets	308,927	11,854	320,781	458,621	10,124	468,745
Other non-current assets	44,082,921	–	44,082,921	37,726,083	–	37,726,083
	72,830,633	50,674	72,881,307	62,362,981	54,861	62,417,842
Current Assets						
Inventories	51,884,480	949,124	52,833,604	45,899,422	688,639	46,588,061
Trade and other receivables	10,823,840	1,552,658	12,376,498	9,242,575	1,046,417	10,288,992
Bank balances and cash	31,637,868	499,870	32,137,738	31,312,457	220,937	31,533,394
Other current assets	4,152,994	–	4,152,994	2,430,740	–	2,430,740
	98,499,182	3,001,652	101,500,834	88,885,194	1,955,993	90,841,187
Current Liabilities						
Trade and other payables	17,358,400	1,194,546	18,552,946	14,267,470	808,544	15,076,014
Consideration payables for acquisition of subsidiaries	98,619	637,630	736,249	398,413	592,706	991,119
Customer deposits from sales of properties	15,997,582	581,838	16,579,420	14,776,557	70,919	14,847,476
Taxation payable	4,305,406	1,384	4,306,790	4,207,441	11,830	4,219,271
Bank and other borrowings	11,703,042	113,932	11,816,974	8,553,493	–	8,553,493
Other current liabilities	53,533	–	53,533	56,601	–	56,601
	49,516,582	2,529,330	52,045,912	42,259,975	1,483,999	43,743,974
Net Current Assets	48,982,600	472,322	49,454,922	46,625,219	471,994	47,097,213
Total Assets less Current Liabilities	121,813,233	522,996	122,336,229	108,988,200	526,855	109,515,055
Capital and Reserves						
Share capital	13,649,839	–	13,649,839	13,633,449	–	13,633,449
Reserves	27,930,013	162,714	28,092,727	23,282,840	177,747	23,460,587
Equity attributable to owners of the Company	41,579,852	162,714	41,742,566	36,916,289	177,747	37,094,036
Non-controlling interests	29,373,380	71,994	29,445,374	25,556,228	81,131	25,637,359
Total Equity	70,953,232	234,708	71,187,940	62,472,517	258,878	62,731,395
Non-Current Liabilities						
Bank and other borrowings	41,017,149	288,288	41,305,437	37,595,994	267,977	37,863,971
Other non-current liabilities	9,842,852	–	9,842,852	8,919,689	–	8,919,689
	50,860,001	288,288	51,148,289	46,515,683	267,977	46,783,660
Total Equity and Non-Current Liabilities	121,813,233	522,996	122,336,229	108,988,200	526,855	109,515,055

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For the year ended 31 December 2018

2. MERGER ACCOUNTING FOR A BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

Note: These adjustments are to include the assets and liabilities of Shangtou Real Estate Group as at 31 December 2017 and 1 January 2017 into the Company's consolidated financial statements.

The adjustments to consideration payables for acquisition of subsidiaries represented the cash consideration payable by the Group for acquisition of Shangtou Real Estate Group.

The effects of acquisition of Shangtou Real Estate Group using merger accounting on the consolidated statement of cash flows for the year ended 31 December 2017 are as follows:

	HK$'000 (as previously reported)	Business combination of entities under common control HK$'000	HK$'000 (restated)
OPERATING ACTIVITIES			
Profit before taxation	9,392,861	(21,205)	9,371,656
Adjustment for:			
Depreciation of property, plant and equipment	385,552	675	386,227
Finance costs	1,781,329	18,049	1,799,378
Interest income	(755,416)	(3,442)	(758,858)
Net loss on disposal/written off of property, plant and equipment	5,394	(1,002)	4,392
Other operating cash flows	462,998	–	462,998
Operating cash flows before movements in working capital	11,272,718	(6,925)	11,265,793
Decrease (increase) in inventories	23,772	(202,123)	(178,351)
Decrease (increase) in trade and other receivables	930,478	(740,319)	190,159
Decrease in trade and other payables	(924,746)	(50,152)	(974,898)
(Decrease) increase in customer deposits from sales of properties	(905,698)	485,315	(420,383)
Other movements in working capital	(2,610,809)	–	(2,610,809)
Cash generated from (used in) operations	7,785,715	(514,204)	7,271,511
PRC EIT paid	(2,170,224)	–	(2,170,224)
PRC LAT paid	(1,889,274)	–	(1,889,274)
Hong Kong Profits Tax paid	(160,347)	(19,215)	(179,562)
Net cash from (used in) operating activities	3,565,870	(533,419)	3,032,451

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For the year ended 31 December 2018

2. MERGER ACCOUNTING FOR A BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL (continued)

	HK$'000 (as previously reported)	Business combination of entities under common control HK$'000	HK$'000 (restated)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(871,593)	(465)	(872,058)
Interest received	755,416	3,441	758,857
Proceeds from disposal of property, plant and equipment	79,919	3,087	83,006
Proceeds from disposal of an investment property	–	5,676	5,676
Repayment from a related party	–	335,203	335,203
Other investing cash flows	(2,431,070)	–	(2,431,070)
Net cash (used in) from investing activities	(2,467,328)	346,942	(2,120,386)
FINANCING ACTIVITIES			
Interest paid	(2,352,797)	(18,049)	(2,370,846)
Bank and other borrowings raised	16,660,557	113,932	16,774,489
Advances from a related party	117,993	355,566	473,559
Other financing cash flows	(16,465,432)	–	(16,465,432)
Net cash (used in) from financing activities	(2,039,679)	451,449	(1,588,230)
Net (decrease) increase in cash and cash equivalents	(941,137)	264,972	(676,165)
Cash and cash equivalents at 1 January	31,312,457	220,937	31,533,394
Effect of foreign exchange rate changes	1,266,548	13,961	1,280,509
Cash and cash equivalents at 31 December, represented by bank balances and cash	31,637,868	499,870	32,137,738

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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.

3.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Infrastructure facilities, including investments in toll road projects and water-related businesses;
- Real estate, including property development and investment and hotel operation; and
- Consumer products, including manufacture and sales of cigarettes, packaging materials and printed products.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 6 and 4 respectively.

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

3.1 HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15

On the whole, the application of HKFRS 15 has no material impact on the retained profits at 1 January 2018. The following adjustments were made to the amounts recognised in the Group's consolidated statement of financial position as at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS15 at 1 January 2018 HK$'000
Current Assets				
Amounts due from customers for contract work	(a)	1,291,540	(1,291,540)	–
Contract assets	(a)	–	1,291,540	1,291,540
Current Liabilities				
Amounts due to customers for contract work	(a)	20,084	(20,084)	–
Customer deposits from sales of properties	(b)	16,579,420	(16,579,420)	–
Contract liabilities	(a), (b)	–	16,599,504	16,599,504

Notes:

(a) In relation to construction contracts previously accounted for under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. HK$1,291,540,000 and HK$20,084,000 of amounts due from/to customers for contract work were reclassified to contract assets and contract liabilities respectively.

(b) As at 1 January 2018, customer deposits from sales of properties of HK$16,579,420,000 were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

3.1 HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

Impact on the consolidated statement of financial position

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Current Assets			
Amounts due from customers for contract work	–	925,371	925,371
Contract assets	925,371	(925,371)	–
Current Liabilities			
Amounts due to customers for contract work	–	5,805	5,805
Customer deposits from sales of properties	–	15,282,544	15,282,544
Contract liabilities	15,288,349	(15,288,349)	–

Impact on the consolidated statement of cash flows for the year ended 31 December 2018

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Operating activities			
Net movement in amounts due to customers for contract work	–	346,085	346,085
Decrease in contract assets	432,916	(432,916)	–
Decrease in customer deposits from sales of properties	–	(2,072,295)	(2,072,295)
Decrease in contract liabilities	(2,159,126)	2,159,126	–

The explanations of the above changes affected in the current year by the application of HKFRS 15 as compared to HKAS 11, HKAS 18 and the related interpretations are set out in notes (a) to (b) above for describing the adjustments made to the consolidated statement of financial position at 1 January 2018 upon adoption of HKFRS 15.

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

3.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, contract assets and financial guarantee contracts and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 4.

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments HK$'000	Financial assets designated as at FVTPL HK$'000	Financial assets at FVTPL required by HKAS 39/ HKFRS 9 HK$'000	Equity instruments at FVTPL HK$'000	Equity instruments at FVTOCI (as defined in 3.2(a)) HK$'000	Contract assets HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000
Closing balance at 31 December 2017 (as previously reported) – HKAS 39		796,723	217,593	265,452	–	–	–	329,674	27,440,993
Effect of inclusion of Shangtou Real Estate Group		24,024	–	–	–	–	–	–	(36,164)
Closing balance at 31 December 2017 (restated in Note 2) – HKAS 39		820,747	217,593	265,452	–	–	–	329,674	27,404,829
Effect arising from initial application of HKFRS 15:	3.1	–	–	–	–	–	1,291,540	–	–
Effect arising from initial application of HKFRS 9:									
Reclassification									
From available-for-sale investments	(a)	(820,747)	–	–	62,745	758,002	–	(31,888)	31,888
From financial assets designated as at FVTPL	(b)	–	(217,593)	217,593	–	–	–	–	–
Opening balance at 1 January 2018 – HKFRS 9		–	–	483,045	62,745	758,002	1,291,540	297,786	27,436,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

3.2 HKFRS 9 "Financial Instruments" (continued)

(a) Available-for-sale investments

From available-for-sale equity investments to fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of qualified equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future.

At the date of initial application of HKFRS 9, HK$758,002,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which HK$603,344,000 related to unlisted equity securities previously measured at cost less impairment under HKAS 39. No fair value gains or losses relating to those unlisted equity securities previously carried at cost less impairment were accumulated as at 1 January 2018. The fair value gains of HK$297,786,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

From available-for-sale equity investments to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of HK$62,745,000 were reclassified from available-for-sale investments to equity instruments at FVTPL, of which HK$31,417,000 related to unlisted equity securities previously measured at cost less impairment under HKAS 39. No fair value gains or losses relating to those unlisted equity investments previously carried at cost less impairment were accumulated as at 1 January 2018. The fair value gains of HK$31,888,000 relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained profits.

The directors of the Company consider that the carrying amounts of unlisted equity investments previously stated as at 31 December 2017 are approximate to their fair values.

(b) Financial assets at FVTPL and/or designated as at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of HK$217,593,000 were reclassified from financial assets designated as at FVTPL to financial assets at FVTPL.

The remaining investments are equity securities held for trading which are required to be classified as financial assets at FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

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

3.3 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 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 (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after 1 January 2021
5 Effective for annual periods beginning on or after a date to be determined

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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.

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

HKFRS 16 "Leases" (continued)

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, upfront prepaid lease prepayments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of HK$424,204,000 as disclosed in Note 43. 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement Contains a Lease". Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, 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 at initial application 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

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

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

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

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

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

Profit or loss and each item 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's interests in subsidiaries

Changes in the Group's interests in 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 losses 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 HKFRS 9/HKAS 39 or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses, other than business combination under common control 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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 or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Applying merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations"

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 businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining 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 businesses from the earliest date presented or since the date when the combining 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 businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 group 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 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 or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

Investments in subsidiaries

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

Investments in associates and joint ventures

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

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

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 continues to 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 venture 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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 Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, 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 HKFRS 9/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 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Construction contracts (prior to 1 January 2018)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for an presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3) (continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions in relation to the sales of properties) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Revenue recognition (prior to 1 January 2018)

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.

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For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018) (continued)

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.

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.

Transfer from investment properties to inventories at fair value

The Group transfers a property from investment properties to inventories at fair value when there is a change of use of property for the purpose of selling.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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).

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.

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For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are 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).

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

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

Retirement benefits costs

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

Short-term employee benefits

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

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

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' 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Intangible assets

Intangible assets acquired separately

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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.

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.

The recoverable amount of tangible and intangible assets are estimated individually, 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.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) (continued)

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "net investment income" in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net investment income".

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, receivables under service concession arrangements, pledged bank deposits, short-term bank deposits, bank balances and cash, contract assets and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. The expected credit losses on trade receivables are estimated using a provision matrix based on shared characteristics including historical credit loss experience, industry specific factors to the debtors, general economic conditions and the available and supportive forward-looking information, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) (continued)

(i) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, except as specified below, unless the Group has reasonable and supportable information that demonstrates otherwise.

For water-related businesses, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due for corporate/individual debtors and more than three years for government debtors based on their industry experience.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers changes in the risk of that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due, except as specified below, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

For water-related businesses, the Group considers that default has occurred when a financial asset is more than one year past due for corporate/individual debtors and more than five years for government debtors based on their industry knowledge.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) (continued)

(v) Measurement and recognition of ECL (continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at 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.

(i) 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 56(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

(ii) 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.

(iii) 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 (before application of HKFRS 9 on 1 January 2018)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

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.

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.

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For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments 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.

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.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

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.

Derecognition of financial liabilities

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Convertible bonds containing liability and equity components (continued)
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 (under HKFRS 9 since 1 January 2018)
Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 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.

Embedded derivatives (before application of HKFRS 9 on 1 January 2018)
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. They are subsequently measured at the higher of:

(i) the amount of the loss allowance determined in accordance with HKFRS 9 (since 1 January 2018)/HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of HKFRS 9 on 1 January 2018); 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 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make 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.

Control over SIIC Environment

Note 51 describes that SIIC Environment Holdings Ltd. ("SIIC Environment") is a listed subsidiary of the Group although the Group has only 46.67% (2017: 46.30%) ownership interest and voting rights in SIIC Environment as at 31 December 2018. SIIC Environment is dual listed on the Main Board of Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Stock Exchange.

The directors of the Company assessed whether or not the Group has control over SIIC Environment throughout the year ended 31 December 2018, 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 2018.

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 certain investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted for such properties. For the properties on which the 'sale' presumption is not rebutted, the Group has further recognised deferred taxes on changes in fair value of investment properties in relation to PRC LAT, which is the additional tax to be charged if a property in the PRC is recovered through sale.

Key sources of estimation uncertainty

The 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Fair values of investment properties

Investment properties in the consolidated statement of financial position at 31 December 2018 are carried at their fair values of approximately HK$19,372 million (2017: HK$22,630 million, as restated), details of which are disclosed in Note 15. 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.

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 2018, the carrying amount of goodwill was approximately HK$800 million (2017: HK$848 million). During the year ended 31 December 2018, impairment loss of HK$24 million (2017: Nil) was recognised to goodwill in consumer products segment. Details of the impairment test are set out in Note 19.

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 2018, the aggregate carrying amount of properties under development and properties held for sale was approximately HK$56,132 million (2017: HK$50,947 million, as restated).

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 2018, the carrying amount of LAT provision (included in taxation payable) was approximately HK$2,024 million (2017: HK$2,115 million).

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade receivables and contract assets
The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Notes 56(b), 29 and 30.

Estimation of contract revenue and costs
The Group recognised contract revenue from construction works by progress towards complete satisfaction of a performance obligation based on input method. The management estimates the efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation by reviewing and revising the estimates to the costs of the performance obligation. 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 15 and 56(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue

	For the year ended 31 December 2018			
	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Total HK$'000
Types of goods or service				
Sales of goods and services				
Sales of properties	–	12,316,226	–	12,316,226
Sales of goods	–	–	4,405,656	4,405,656
Income from infrastructure facilities, other than financial income from service concession arrangements				
– toll road operation	2,487,001	–	–	2,487,001
– water-related service				
– operating, maintenance and other income	2,629,520	–	–	2,629,520
– construction income from construction contracts	2,670,889	–	–	2,670,889
Ancillary facilities, property services and management income	–	3,361,987	–	3,361,987
Income from hotel operations	–	295,653	–	295,653
Revenue from goods and services	7,787,410	15,973,866	4,405,656	28,166,932
Financial income from service concession arrangements	1,018,015	–	–	1,018,015
Rental income	–	1,227,936	–	1,227,936
Total	8,805,425	17,201,802	4,405,656	30,412,883
Timing of revenue recognition of revenue from goods and services				
A point in time	2,372,312	12,316,226	4,405,656	19,094,194
Overtime	5,415,098	3,657,640	–	9,072,738
	7,787,410	15,973,866	4,405,656	28,166,932

6. REVENUE (continued)

A. For the year ended 31 December 2018 (continued)

(ii) Performance obligations for contracts with customers

Infrastructure facilities

The Group's revenue from infrastructure facilities segment represents i) toll road fee income and ii) income from water-related business, comprising construction income, operating and maintenance income from service concession arrangements and other service income.

Toll road fee income and other service income are recognised over time using the output method by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefit provided by the Group's performance.

Revenue from operating and maintenance income from water-related businesses under service concession arrangement is recognised at a point in time when the Group has transmitted to the customers and the customers accepted the water supplied or when the wastewater treatment service is rendered.

For construction income from construction contracts, which previously being accounted for under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to the date of initial application of HKFRS 15. Amounts due from/to customers for contract work are reclassified to contract assets and contract liabilities, as appropriate.

Real Estate

The Group's revenue under real estate segment represents income from sales of properties, ancillary facilities, property service and management and hotel operation.

Revenue from sales of properties is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from sales of properties is recognised when the respective properties have been completed and delivered to the customers, which is a point in time when customers have the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits received from customers prior to meeting the aforementioned revenue recognition criteria are regarded as the contract liabilities.

Revenue from provision of ancillary facilities and property management service is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation as the customers simultaneously receive and consume the benefits provided by the Group when the Group renders the service.

Revenue from hotel operations is recognised over time. The Group's performance obligations in relation to the hotel operations mainly represent granting customers a right to access hotel's facilities, products and services. The customers simultaneously receive and consume the benefits provided by the Group in running the hotels.

Consumer Products

The Group's revenue from consumer products segment represents income from the manufacture and sales of cigarettes, packaging materials and printed products and is recognised at a point in time.

Under the transfer-of-control approach in HKFRS 15, revenue from sales of consumer products is recognised when the products are delivered and titled are passed to customers, which is the point of time when the control of products is transferred to the customer and the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. REVENUE (continued)

A. For the year ended 31 December 2018 (continued)

(iii) Transaction price allocated to the remaining performance obligations for contracts with customers:

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Sales of properties HK$'000
Within one year	7,593,157
More than one year but not more than two years	4,542,685
More than two years	3,146,702
	15,282,544

Except for the above, all other contracts with customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 HK$'000 (restated)
Sales of properties	14,788,692
Sales of goods	4,186,370
Income from infrastructure facilities	7,725,036
Ancillary facilities, property services, rental and management income	2,627,123
Income from hotel operations	193,104
	29,520,325

7. NET INVESTMENT INCOME

	2018 HK$'000	2017 HK$'000
Interest on bank deposits	433,654	503,548
Interest on financial assets at FVTPL	39,166	–
Interest on available-for-sale investments	–	38,847
Interest on financial assets designated as at FVTPL	–	2,456
Other interest income	131,739	214,007
Total interest income	604,559	758,858
Change in fair value of financial assets classified as held for trading	–	72,614
Change in fair value of financial assets designated as at FVTPL	–	(1,695)
Change in fair value of financial assets at FVTPL	(93,654)	–
Dividend income from equity investments	17,636	6,703
Gain on disposal of available-for-sale investments	–	14,881
Rental income from property, plant and equipment	2,017	2,299
Other investment income	–	(3,442)
	530,558	850,218

7. NET INVESTMENT INCOME (continued)

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

	2018 **HK$'000**	2017 HK$'000
Financial assets at FVTPL	(36,852)	79,173
Financial assets at amortised cost (including bank balances and cash)	565,393	–
Loans and receivables (including bank balances and cash)	–	714,113
Available-for-sale financial assets	–	54,633
	528,541	847,919
Investment income earned on non-financial assets	2,017	2,299
	530,558	850,218

Included above is net (loss) income from listed investments of HK$(60,240,000) (2017: HK$79,226,000) and from unlisted investments of HK$23,388,000 (2017: HK$54,580,000).

8. FINANCE COSTS

	2018 **HK$'000**	2017 HK$'000 (restated)
Interest on bank and other borrowings	2,746,008	2,371,563
Interest on convertible bonds (Note 37)	89	727
	2,746,097	2,372,290
Less: amounts capitalised in properties under development held for sale	(776,648)	(572,912)
	1,969,449	1,799,378

Borrowing costs capitalised during the year arose on the general borrowings pool and are calculated by applying capitalisation rates ranging from 3.48% to 5.85% (2017: 3.41% to 5.65%), per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. GAIN ON DISPOSAL OF SUBSIDIARIES/INTERESTS IN ASSOCIATES/INTEREST IN A JOINT VENTURE

	2018 **HK$'000**	2017 HK$'000
Gain on deemed disposal of interest in a joint venture	8,409	–
Gain on disposal of interests in associates	–	22,711
Gain on disposal of subsidiaries (Note 42)	259,883	–
Fair value gain on revaluation of previously held interest in an associate upon obtaining control and becoming a subsidiary (Note 40(i))	–	206,559
	268,292	229,270

10. INCOME TAX EXPENSE

	2018 **HK$'000**	2017 HK$'000 (restated)
Current tax		
– Hong Kong	204,049	208,719
– PRC LAT	1,544,261	1,679,174
– PRC EIT (including PRC withholding tax of HK$74,727,000 (2017: HK$32,502,000))	1,991,812	1,819,616
	3,740,122	3,707,509
(Over)underprovision in prior years		
– Hong Kong	193	1,173
– PRC LAT (note)	(7,440)	79,750
– PRC EIT (note)	(17,494)	23,107
	(24,741)	104,030
Deferred taxation for the year (Note 27)	(285,869)	425,392
	3,429,512	4,236,931

Note: The Group recognised an overprovision (2017: underprovision) of PRC LAT and PRC EIT during the year ended 31 December 2018, upon completion of tax clearance procedures by certain PRC subsidiaries with the respective tax authorities.

10. INCOME TAX EXPENSE (continued)

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:

	2018 HK$'000	2017 HK$'000 (restated)
Profit before taxation	8,523,183	9,371,656
Tax at PRC statutory tax rate of 25% (2017: 25%)	2,130,796	2,342,914
Tax effect of share of results of joint ventures and associates	(110,256)	(155,458)
Tax effect of expenses not deductible for tax purpose	238,988	225,195
Tax effect of income not taxable for tax purpose	(89,330)	(36,391)
(Over)underprovision of Hong Kong Profits Tax and PRC EIT in prior years	(17,301)	24,280
Tax effect of tax losses not recognised as deferred tax assets	228,197	302,640
Utilisation of tax losses previously not recognised as deferred tax assets	(36,637)	(37,420)
Effect of PRC subsidiaries subject to a lower tax rate	(32,190)	(56,635)
Effect of different tax rates of subsidiaries	(61,418)	(63,960)
Provision for PRC LAT for the year	1,518,427	1,878,200
(Over)underprovision of PRC LAT in prior years	(7,440)	79,750
Tax effect of PRC LAT deductible for PRC EIT	(384,555)	(489,488)
Tax charge on dividend withholding tax	77,287	188,878
Others	(25,056)	34,426
Income tax expense for the year	3,429,512	4,236,931

Notes:

(i) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. 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 (2017: three) 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 from the date of grant 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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11. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000 (restated)
Profit for the year has been arrived at after charging:		
Employee benefits expense, including directors' emoluments:		
Basic salaries, allowances and bonus	1,539,221	1,415,721
Retirement benefits scheme contributions	241,144	211,501
	1,780,365	1,627,222
Amortisation of toll road operating rights (included in cost of sales)	836,761	805,438
Amortisation of other intangible assets (included in cost of sales)	357,460	339,871
Depreciation of property, plant and equipment	459,311	386,227
Release of prepaid lease payments	7,638	7,517
Total depreciation and amortisation	1,661,170	1,539,053
Auditors' remuneration	18,831	17,817
Cost of inventories recognised as an expense		
– properties	9,695,363	10,449,017
– inventories other than properties	2,608,814	2,150,403
Impairment loss on financial assets	55,520	34,710
Impairment loss on properties held for sale	80,662	280,519
Impairment loss on inventories, other than properties	–	12,601
Impairment loss on goodwill	24,021	–
Net foreign exchange loss (included in other income, gains and losses)	52,841	–
Net decrease in fair value of investment properties	175,216	–
Net loss on disposal/written off of property, plant and equipment	394	4,392
Operating lease rentals in respect of land and buildings to		
– fellow subsidiaries	51,171	12,789
– others	72,620	167,767
Provision for major overhauls (included in cost of sales)	416	54
Research expenditure	6,213	7,884
Share of PRC EIT of joint ventures (included in share of results of joint ventures)	89,015	62,560
Share of PRC EIT of associates (included in share of results of associates)	86,235	123,292
and after crediting:		
Gain on land resumption (note)	538,579	–
Gain from bargain purchase of interest in a subsidiary (Note 40)	24,176	8,097
Interest income	604,559	758,858
Net increase in fair value of investment properties	–	65,207
Reversal of impairment loss on financial assets	5,316	38,599
Reversal of impairment loss on other intangible assets	–	28,229
Reversal of impairment loss on other receivables	14,259	4,896
Reversal of impairment loss of inventories, other than properties	10,312	–
Net foreign exchange gain (included in other income, gains and losses)	–	50,169

Note: During the year ended 31 December 2018, two parcels of land with an aggregate carrying amount of RMB86,423,000 (equivalent to HK$102,398,000) held by the Group are resumed by the relevant government authority of Shanghai in the PRC for an aggregate compensation of RMB540,985,000 (equivalent to HK$640,977,000) and a gain of RMB454,562,000 (equivalent to HK$538,579,000) is recognised as other income.

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

The emoluments paid or payable to each of the nine (2017: nine) former and existing directors of the Company were as follows:

	Executive directors						Independent non-executive directors				
	Shen Xiao Chu HK$'000 (note i)	Zhou Jun HK$'000	Xu Bo HK$'000	Xu Zhan HK$'000	Wang Wei HK$'000 (note i)	Lu Shen HK$'000 (note i)	Woo Chia-Wei HK$'000	Leung Pak To, Francis HK$'000	Cheng Hoi Chuen, Vincent HK$'000	Yuen Tin Fan, Francis HK$'000	Total HK$'000
Year ended 31 December 2018											
Executive directors:											
Directors' fee and committee remuneration	–	580	–	521	–	–	–	–	–	–	1,101
Basic salaries and allowances	2,725	2,364	1,887	–	533	–	–	–	–	–	7,509
Bonuses	1,756	1,995	840	–	344	–	–	–	–	–	4,935
Retirement benefits scheme contributions	90	96	88	–	18	–	–	–	–	–	292
Independent non-executive directors:											
Directors' fees and committee remuneration	–	–	–	–	–	–	450	440	449	440	1,779
Total directors' emoluments	4,571	5,035	2,815	521	895	–	450	440	449	440	15,616
Year ended 31 December 2017											
Executive directors:											
Directors' fee and committee remuneration	–	564	–	513	–	–	–	–	–	–	1,077
Basic salaries and allowances	–	2,364	1,887	–	3,258	120	–	–	–	–	7,629
Bonuses	–	1,995	840	–	2,100	58	–	–	–	–	4,993
Retirement benefits scheme contributions	–	87	80	–	99	5	–	–	–	–	271
Independent non-executive directors:											
Directors' fees and committee remuneration	–	–	–	–	–	–	450	440	449	440	1,779
Total directors' emoluments	–	5,010	2,807	513	5,457	183	450	440	449	440	15,749

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For the year ended 31 December 2018

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (continued)

Notes:

(i) Mr. Shen Xiao Chu was appointed as an executive director of the Company on 28 February 2018. Mr. Wang Wei and Mr. Lu Shen resigned as an executive director of the Company on 28 February 2018 and 24 January 2017, respectively.

(ii) 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.

(iii) 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.

(iv) The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

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

(vi) For the two years ended 31 December 2018, 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.

For the year ended 31 December 2018, out of the five individuals with the highest emoluments in the Group, three (2017: three) are directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2017: two) individual are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other allowances	4,542	4,480
Retirement benefits	102	90
	4,644	4,570

The emoluments of the above two (2017: two) individuals are within the following band:

	2018	2017
HK$2,000,001 to HK$2,500,000	2	2

During the years ended 31 December 2018 and 2017, no emoluments have been paid by the Group to the two employees with the highest emoluments as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends recognised as distribution during the year:		
2018 interim dividend of HK48 cents		
(2017: 2017 interim dividend of HK46 cents) per share	521,861	500,117
2017 final dividend of HK48 cents		
(2017: 2016 final dividend of HK46 cents) per share	521,862	500,117
	1,043,723	1,000,234

The final dividend of HK52 cents per share in respect of the year ended 31 December 2018, amounting to approximately HK$565.4 million in total, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000 (restated)
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	3,333,020	3,135,182
Effect of dilutive potential ordinary shares – interest on convertible bonds, net of tax	156	607
Earnings for the purpose of diluted earnings per share	3,333,176	3,135,789

	2018	2017
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,087,211,600	1,086,991,283
Effect of dilutive potential ordinary shares – convertible bonds	118,214	880,573
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,087,329,814	1,087,871,856

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 SI Urban Development, a listed subsidiary of the Group, because the exercise price of those options was higher than the average market price for the corresponding period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017 (originally stated)	18,619,278
Effect of inclusion of Shangtou Real Estate Group (Note 2)	18,508
At 1 January 2017 (restated)	18,637,786
Exchange adjustments (restated)	1,481,337
Subsequent expenditures	180,179
Transfer from inventories (note iii)	2,270,820
Disposals (restated)	(5,676)
Net increase in fair value recognised in profit or loss	65,207
At 31 December 2017 (restated)	22,629,653
Exchange adjustments	(1,101,449)
Subsequent expenditures	223,944
Transfer from inventories (note iii)	99,730
Carved-out (note v)	(14,253)
Transfer to inventories (note iv)	(2,290,284)
Net decrease in fair value recognised in profit or loss	(175,216)
At 31 December 2018	19,372,125

Notes:

		2018 HK$'000	2017 HK$'000
(i)	Unrealised (loss) gain on property revaluation included in profit or loss for the year (included in other income, gains and losses)	(175,216)	65,207

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

	2018 HK$'000	2017 HK$'000 (restated)
Land use rights in the PRC	19,372,125	22,629,653

(iii) During the year ended 31 December 2018, properties held for sale included in inventories with a carrying amount of HK$99,730,000 (2017: HK$2,270,820,000) were transferred to investment properties as the management had changed the use of the properties, evidenced by inception (2017: commencement) of various operating leases entered into with tenants. The properties were fair-valued by C&W (as defined in Note 15 (vii)) at the date of transfer by reference to net rental income allowing for reversionary income potential.

(iv) In July 2018, the operating leases in relation to a residential villa located in Shanghai, the PRC, are terminated and the Group commences development and renovation works on the villa for the purpose of selling. The villa with a fair value of HK$2,290,284,000 was then transferred from investment properties to properties held for sale included in inventories.

(v) In April 2018, certain of the investment properties with a carrying amount of HK$14,253,000 are carved-out and distributed to an entity controlled by Shangtou Asset. Details of the carved-out arrangement are set out in Note 2.

15. INVESTMENT PROPERTIES (continued)

Notes: (continued)

(vi) The property rental income earned by the Group from its investment properties which are either held for rental income under operating leases and/or for capital appreciation purpose, amounted to HK$1,227,936,000 (2017: HK$1,009,519,000, as restated) with insignificant direct operating expenses.

(vii) The fair values of the Group's investment properties as at 31 December 2018 and 2017 have been arrived at on the basis of valuations carried out on the respective dates by Cushman & Wakefield Limited ("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.

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

(ix) Following are the key inputs used in valuing the investment properties as at 31 December 2018 and 2017:

Category	Fair value hierarchy	Fair value 2018 HK$'000	Fair value 2017 HK$'000 (restated)	Valuation techniques	Significant unobservable inputs	Range or weighted average 2018	Range or weighted average 2017	Sensitivity
Office properties	Level 3	5,849,333	6,091,119	Investment approach	Reversionary rate derived from market rent and the transaction price of comparable properties in the same location.	4.75% to 6.75%	4.75% to 5.75%	The higher the reversionary yield, the lower the fair value.
Car parking spaces	Level 3	–	181,381	Investment approach	Reversionary rate derived from market rent and the transaction price of comparable properties in the same location.	N/A	5.5%	The higher the reversionary yield, the lower the fair value.
		226,250	57,289	Direct comparison approach	Market price per unit and adjustment to transaction price (to reflect location, age and maintenance).	Market price: RMB110,000 to RMB330,000 Adjustment: -23% to 5%	Market price: RMB180,000 to RMB320,000 Adjustment: 2.8% to 17.3%	The higher the price per unit, the higher the fair value. The larger the upward adjustment, the higher the fair value.
Residential service apartments	Level 3	34,730	36,517	Investment approach	Reversionary rate derived from market rent and transaction price of comparable properties in the same location.	3.5%	3.5%	The higher the reversionary yield, the lower the fair value.
Industrial properties	Level 3	141,131	148,878	Investment approach	Reversionary rate derived from existing contracts rent and monthly market rent.	5.75%	5.75%	The higher the reversionary yield, the lower the fair value.
Commercial properties	Level 3	13,120,681	13,792,547	Investment approach	Reversionary rate derived from market rent and the transaction price of comparable properties in the same location.	3.5% to 5.5%	3.75% to 4.75%	The higher the reversionary yield, the lower the fair value.
Residential Villa	Level 3	–	2,321,922	Investment approach	Reversionary rate derived from market rent and transaction price of comparable properties in the same location.	N/A	1.5%	The higher the reversionary yield, the lower the fair value.
		19,372,125	22,629,653					

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

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16. PROPERTY, PLANT AND EQUIPMENT

	Hotel property HK$'000	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2017 (originally stated)	1,088,434	2,167,285	953,981	175,699	2,539,451	235,984	7,160,834
Effect of inclusion of Shangtou Real Estate Group (Note 2)	–	–	4,646	7,047	–	–	11,693
At 1 January 2017 (restated)	1,088,434	2,167,285	958,627	182,746	2,539,451	235,984	7,172,527
Exchange adjustments	125,550	97,493	35,115	14,631	45,100	17,596	335,485
Acquisition of Quanzhou Shangshi Investment (Note 40)	–	–	279	578	24	–	881
Additions	108	68,653	53,242	12,683	48,772	688,600	872,058
Reclassification	463,566	313	48,694	–	71,083	(583,656)	–
Disposals/written off	(474)	(25,622)	(20,905)	(17,566)	(27,536)	(51,503)	(143,606)
At 31 December 2017 (restated)	1,677,184	2,308,122	1,075,052	193,072	2,676,894	307,021	8,237,345
Exchange adjustments	(109,895)	(78,296)	(29,422)	(7,928)	(43,576)	(6,804)	(275,921)
Acquisition of subsidiaries (Note 40)	–	13,661	817	2,701	79,805	3,686	100,670
Additions	669,789	77,447	78,963	10,536	225,480	43,538	1,105,753
Reclassification	159,735	–	(5,527)	–	24,516	(178,724)	–
Disposals/written off	(941)	(33,019)	(26,404)	(27,305)	(39,831)	(576)	(128,076)
Disposals of subsidiaries	–	–	(1,113)	(524)	(207)	–	(1,844)
At 31 December 2018	2,395,872	2,287,915	1,092,366	170,552	2,923,081	168,141	9,037,927
DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 January 2017 (originally stated)	268,109	537,846	499,648	102,110	1,364,206	–	2,771,919
Effect of inclusion of Shangtou Real Estate Group (Note 2)	–	–	2,492	5,303	–	–	7,795
At 1 January 2017 (restated)	268,109	537,846	502,140	107,413	1,364,206	–	2,779,714
Exchange adjustments	28,776	28,032	16,790	10,248	15,603	–	99,449
Provided for the year (restated)	73,108	82,034	64,078	21,449	145,558	–	386,227
Eliminated on disposals/written off	(290)	(1,381)	(17,916)	(13,483)	(22,180)	–	(55,250)
At 31 December 2017 (restated)	369,703	646,531	565,092	125,627	1,503,187	–	3,210,140
Exchange adjustments	(26,262)	(34,483)	(35,961)	(7,279)	(7,972)	–	(111,957)
Provided for the year	85,698	88,735	72,675	19,322	192,881	–	459,311
Eliminated on disposals/written off	(881)	(1,196)	(21,391)	(24,385)	(12,705)	–	(60,558)
Eliminated on disposals of subsidiaries	–	–	(757)	(274)	(42)	–	(1,073)
At 31 December 2018	428,258	699,587	579,658	113,011	1,675,349	–	3,495,863
CARRYING VALUES							
At 31 December 2018	1,967,614	1,588,328	512,708	57,541	1,247,732	168,141	5,542,064
At 31 December 2017 (restated)	1,307,481	1,661,591	509,960	67,445	1,173,707	307,021	5,027,205
At 1 January 2017 (restated)	820,325	1,629,439	456,487	75,333	1,175,245	235,984	4,392,813

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

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

Hotel property	Over the period of the lease term
Leasehold land and buildings	The shorter of 4%-5% or over the period of the lease term
Furniture, fixtures and equipment	5%-33$^1/_3$% 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:

	2018 HK$'000	2017 HK$'000
Land use rights in the PRC	2,927,777	2,318,032
Leases in Hong Kong	628,165	651,040
	3,555,942	2,969,072

17. PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
The Group's prepaid lease payments comprise land use rights in the PRC	232,861	259,866
Analysed for reporting purposes as:		
Current portion	5,413	5,707
Non-current portion	227,448	254,159
	232,861	259,866

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18. TOLL ROAD OPERATING RIGHTS

	HK$'000
COST	
At 1 January 2017	14,839,429
Exchange adjustments	1,124,766
At 31 December 2017	15,964,195
Exchange adjustments	(830,749)
At 31 December 2018	15,133,446
AMORTISATION	
At 1 January 2017	5,026,495
Exchange adjustments	413,857
Charged for the year	805,438
At 31 December 2017	6,245,790
Exchange adjustments	(362,692)
Charged for the year	836,761
At 31 December 2018	6,719,859
CARRYING VALUES	
At 31 December 2018	8,413,587
At 31 December 2017	9,718,405

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.

19. GOODWILL

	HK$'000
COST	
At 1 January 2017	847,582
Exchange adjustments	38,665
At 31 December 2017	886,247
Exchange adjustments	(23,894)
At 31 December 2018	862,353
IMPAIRMENT	
At 1 January 2017 and 31 December 2017	38,235
Impairment loss recognised	24,021
At 31 December 2018	62,256
CARRYING VALUES	
At 31 December 2018	800,097
At 31 December 2017	848,012

For the purposes of impairment testing, goodwill arising on business combinations as set out above was allocated, at acquisition, to three (2017: three) cash-generating units ("CGUs"), comprising one (2017: one) subsidiary in the infrastructure facilities segment, one (2017: one) subsidiary in the real estate segment and two (2017: two) subsidiaries in the consumer products segment, that are expected to benefit from that business combination as follows:

	2018 HK$'000	2017 HK$'000
Infrastructure facilities	509,783	525,803
Real estate	250,504	258,378
Consumer products	39,810	63,831
	800,097	848,012

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 periods ranging from 20 to 25 (2017: 20 to 25) years, using a discount rate of 8% (2017: 9%). Since the recoverable amount of the cash generating unit is higher than its carrying amount, the management of the Group consider that the goodwill is not impaired.

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% (2017: 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 relevant industry growth forecasts 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. Since the recoverable amount of the cash generating unit is higher than its carrying amount, the management of the Group consider that the goodwill is not impaired.

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19. GOODWILL (continued)

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 14% (2017: 10%). The cash flows beyond the 5-year period are extrapolated at zero growth rate (2017: zero). This growth rate is based on the relevant industry growth forecasts 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.

During the year ended 31 December 2018, the management of the Group determined that an impairment loss of HK$24,021,000 (2017: Nil) should be recognised in relation to goodwill due to the decrease in expected operating results in the consumer products segment.

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.

20. OTHER INTANGIBLE ASSETS

	Operating concessions HK$'000 (note i)	Premium on prepaid lease payments HK$'000 (note ii)	Trademark HK$'000 (note iii)	Total HK$'000
COST				
At 1 January 2017	7,732,448	1,554	56,945	7,790,947
Exchange adjustments	603,628	118	4,316	608,062
Acquisition of other subsidiaries (Note 40)	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
Exchange adjustments	(478,838)	(87)	(3,281)	(482,206)
Acquisition of subsidiaries (Note 40)	93,963	–	–	93,963
Additions	630,953	–	–	630,953
Disposal of subsidiaries (Note 42)	(153,352)	–	–	(153,352)
At 31 December 2018	8,750,155	1,585	57,980	8,809,720
AMORTISATION AND IMPAIRMENT				
At 1 January 2017	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
Exchange adjustments	(56,567)	(21)	–	(56,588)
Charged for the year	357,375	85	–	357,460
Eliminated on disposal of subsidiaries (Note 42)	(50,273)	–	–	(50,273)
At 31 December 2018	1,075,289	410	–	1,075,699
CARRYING VALUES				
At 31 December 2018	7,674,866	1,175	57,980	7,734,021
At 31 December 2017	7,832,675	1,326	61,261	7,895,262

20. OTHER INTANGIBLE ASSETS (continued)

Notes:

(i) Operating concessions represent the rights to operate sewage treatment, water supply and waste incineration plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on straight-line basis over the respective periods of the operating concessions granted to the Group of 7 to 50 years. Details of these operating concessions are set out in Note 24.

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

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

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

For the purpose of impairment testing, trademark with indefinite useful life set out above has been allocated to the individual CGU, comprising one subsidiary in the real estate segment. For the years ended 31 December 2018 and 2017, management of the Group has determined that there is no impairment of the CGU containing trademark by reference to the recoverable amount of the CGU, which has been determined based on a value in use calculation.

21. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Cost of unlisted investments in joint ventures	2,373,864	2,537,152
Share of post-acquisition profits and other comprehensive income, net of dividends received/declared	982,077	1,324,247
	3,355,941	3,861,399

Notes:

(i) During the year ended 31 December 2018, the Group entered into a capital injection agreement with two fellow subsidiaries, namely 上海上實(集團)有限公司 (SIIC Shanghai (Holding) Co., Ltd.) and 上海實業金融控股有限公司 (Shanghai Industrial Financial (Holdings) Company Limited) ("SI Financial"). Pursuant to the agreement, SI Financial agreed to inject RMB224,790,805 into 上海星河數碼投資有限公司 ("Shanghai Galaxy"), a joint venture of the Group. Upon completion of capital injection, the equity interests held by the Group is diluted from 50% to 45%. According to the revised articles of association of Shanghai Galaxy, the Group has the power to appoint two out of five directors in the board of Shanghai Galaxy and most of board resolutions require approval from over half of the board members. Accordingly, the Group lost joint control over Shanghai Galaxy and only exercises significant influence over Shanghai Galaxy. Shanghai Galaxy is regarded as an associate of the Group. The carrying amount of the Group's interest in Shanghai Galaxy is transferred to interests in associates.

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

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21. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

(ii) (continued)

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

	General Water		Shanghai Galaxy	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Current assets	2,895,191	3,064,053	N/A	2,014,845
Non-current assets*	5,704,683	6,303,655	N/A	6,894,222
Current liabilities	(2,250,961)	(2,521,844)	N/A	(1,818,786)
Non-current liabilities	(1,385,614)	(1,742,848)	N/A	(4,486,959)
Non-controlling interests	(1,226,688)	(1,258,928)	N/A	(187,675)
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	1,646,657	1,823,909	N/A	392,493
Current financial liabilities (excluding trade and other payables and provisions)	(660,442)	(717,358)	N/A	(990,981)
Non-current financial liabilities (excluding trade and other payables and provisions)	(1,121,525)	(1,414,793)	N/A	(3,987,159)

* The balances of General Water mainly comprise operating concessions.

	General Water		Shanghai Galaxy	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000 (note)**	2017 HK$'000 (note)
Revenue	2,547,500	2,207,875	433,304	840,197
Profit for the year	230,989	172,278	79,620	193,412
Other comprehensive (expense) income for the year	(207,607)	292,700	(121,446)	142,126
Total comprehensive income (expense) for the year	23,382	464,978	(41,826)	335,538
Dividends received from joint venture during the year	(58,886)	(53,661)	(18,459)	–
The above profit for the year include the following:				
Depreciation and amortisation	(328,092)	(318,308)	(117,405)	(228,863)
Interest income	33,685	21,409	1,623	2,341
Interest expense	(96,306)	(101,376)	(129,479)	(263,549)
Income tax expense	(150,772)	(137,595)	(5,784)	(34,582)

Note: The amounts represented the results for the year ended 31 December 2017 and the six months ended 30 June 2018 before Shanghai Galaxy became an associate of the Group.

21. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

(ii) (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:

	General Water		Shanghai Galaxy	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Equity attributable to owners of the joint venture	3,736,611	3,844,088	N/A	2,415,647
Proportion of the Group's ownership interest	45%	45%	N/A	50%
Carrying amount of the Group's interest in the joint venture	1,681,475	1,729,839	N/A	1,207,824

Aggregate information of joint ventures that are not individually material:

	2018 HK$'000	2017 HK$'000
The Group's share of profit	52,681	57,551
The Group's share of other comprehensive (expense) income	(18,553)	67,446
The Group's share of total comprehensive income	34,128	124,997
Dividends received during the year	(52,607)	(54,940)
Aggregate carrying amount of the Group's interests in these joint ventures	1,674,466	923,736

(iii) 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:

	2018 HK$'000	2017 HK$'000
Unrecognised share of profit of a joint venture for the year	45	73
Accumulated unrecognised share of losses of a joint venture	(5,234)	(5,279)

(iv) Details of the Group's principal joint ventures at the end of the reporting period are set out in Note 52.

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22. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Cost of investments in associates	6,585,198	5,074,583
Share of post-acquisition (losses) profits and other comprehensive (expense) income, net of dividends received/declared	(103,144)	1,922
	6,482,054	5,076,505
Fair value of listed investment in an associate – Canvest Environmental Protection Group Company Limited ("Canvest Environmental")	1,772,642	1,643,894

Notes:

(i) Included in the cost of investments is goodwill of HK$910,937,000 (2017: HK$782,023,000) arising on acquisitions.

(ii) During the year ended 31 December 2018, the Company through one of its indirect wholly owned subsidiary, further acquired 73,660,000 shares of Canvest Environmental at a price of HK$3.92 per share, amounting to approximately HK$289 million. Upon the completion of the acquisition, the equity interest held by the Group increased to 17.53% (2017: 14.52%) as at 31 December 2018.

(iii) Summarised financial information in respect of the Group's material associates namely 上海莘天置業有限公司 ("Shanghai Shentian"), 寧波市杭州灣大橋發展有限公司 ("Hangzhou Bay Bridge"), Canvest Environmental and Shanghai Galaxy 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		Shanghai Galaxy	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Current assets*	7,741,986	4,685,722	723,134	256,683	2,020,629	1,971,574	2,263,393	N/A
Non-current assets**	1,369	2,357	11,695,825	12,953,912	8,897,623	7,287,363	6,851,606	N/A
Current liabilities	(3,106,257)	(146,938)	(1,877,688)	(2,173,923)	(1,338,336)	(1,035,682)	(2,470,002)	N/A
Non-current liabilities	(1,391,824)	(1,117,718)	(3,111,895)	(3,284,738)	(4,285,359)	(3,332,949)	(3,703,491)	N/A
Non-controlling interests	–	–	–	–	(1,110)	–	(295,737)	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. The balances of Shanghai Galaxy mainly comprise property, plant and equipment.

22. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(ii) (continued)

	Shanghai Shentian		Hangzhou Bay Bridge		Canvest Environmental		Shanghai Galaxy	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Revenue	–	–	1,942,190	1,818,838	3,325,894	2,397,531	323,148	N/A
Profit for the year	–	–	621,361	518,358	754,355	564,247	38,982	N/A
Other comprehensive (expense) income for the year	(178,149)	241,200	(404,300)	539,504	(217,975)	240,508	(8,462)	N/A
Total comprehensive (expense) income for the year	(178,149)	241,200	217,061	1,057,862	536,380	804,755	30,520	N/A
Dividends received from the associate during the year	–	–	(124,428)	(86,474)	(13,820)	(8,700)	–	N/A

Note: The amounts represented the results for the six months ended 31 December 2018 after Shanghai Galaxy became an associate of the Group.

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		Shanghai Galaxy	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000 (note)	**2018 HK$'000 (note)**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Equity attributable to owners of the associate	3,245,274	3,423,423	7,429,376	7,751,934	5,293,447	4,890,306	2,645,769	N/A
Proportion of the Group's ownership interest	35%	35%	23.06%	23.06%	17.53%	14.52%	45%	N/A
Goodwill	–	–	–	–	717,597	578,813	–	–
Carrying amount of the Group's interest in the associate	1,135,846	1,198,198	1,713,095	1,787,472	1,645,538	1,288,885	1,190,596	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:

	2018 HK$'000	2017 HK$'000
The Group's share of profit	2,047	221,013
The Group's share of other comprehensive (expense) income	(33,398)	145,458
The Group's share of total comprehensive (expense) income	(31,351)	366,471
Dividends received during the year	(18,625)	(229,700)
Aggregate carrying amount of the Group's interests in the associates	796,979	801,950

(v) Details of the Group's principal associates at the end of the reporting period are set out in Note 53.

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23. INVESTMENTS

	31.12.2018 HK$'000	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Equity instruments at FVTPL			
Listed equity securities	440,827	–	–
Unlisted equity securities	31,386	–	–
	472,213	–	–
Financial assets at FVTPL			
Structured deposits	15,252	–	–
Corporate bonds	368,729	–	–
Funds	70,099	–	–
	454,080	–	–
Equity instruments at FVTOCI			
Listed equity securities (note i)	109,219	–	–
Unlisted equity securities (note ii)	572,430	–	–
	681,649	–	–
Available-for-sale investments			
Listed equity securities	–	185,986	432,631
Unlisted equity securities (note iii)	–	634,761	759,784
Unlisted trust funds	–	–	31,264
	–	820,747	1,223,679
Investments held-for-trading			
Listed equity securities	–	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
Total investments	1,607,942	1,303,792	1,419,382
Analysed for reporting purposes as:			
Current portion	603,904	483,045	226,967
Non-current portion	1,004,038	820,747	1,192,415
	1,607,942	1,303,792	1,419,382

23. INVESTMENTS (continued)

Notes:

(i) The above listed equity securities as at 31 December 2018 represent ordinary shares of entities listed in the PRC and HK respectively. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

(ii) The above unlisted equity securities as at 31 December 2018 represent the Group's equity interest in private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they consider that the equity instruments are held for long-term strategic purposes and will realise their performance in the long run.

(iii) The above investments in unlisted equity securities as at 31 December 2017 were measured at cost less impairment under HKAS 39 because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that their fair values could not be measured reliably.

24. SERVICE CONCESSION ARRANGEMENTS

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

(I) Nature of arrangements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. SERVICE CONCESSION ARRANGEMENTS (continued)

(I) Nature of arrangements (continued)

At 31 December 2018, the Group had 115 (2017: 105) service concession arrangements on sewage treatment, eight (2017: seven) service concession arrangements on water treatment and distribution, three (2017: two) service concession arrangements on waste incineration and nine (2017: nine) 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	Daily production capacity tons	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 2011 to 2039
武漢漢西污水處理有限公司	Sewage treatment project in Wuhan Hanxi	Wuhan, Hubei Province	武漢市人民政府	BOT (Financial assets)	600,000	30 years from 2005 to 2034
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 and TOT (Intangible assets)	520,000	28 years from 2016 to 2044
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 2010 to 2039
佳木斯龍江環保供水有限公司	Water supply project in Jiamusi	Jiamusi, Heilongjiang Province	佳木斯市新時代城市基礎設施建設投資(集團)有限公司	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 2010 to 2039
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 and TOT (Intangible assets)	320,000	25 years from 2007 to 2032
余姚市小曹娥城市污水處理有限公司	Sewage treatment project in Zhejiang Yuyao	Yuyao, Zhejiang Province	余姚市人民政府	BOT (Financial assets)	225,000	22 years from 2014 to 2035

24. SERVICE CONCESSION ARRANGEMENTS (continued)

(I) Nature of arrangements (continued)

As explained in the accounting policy for "Service concession arrangements" set out in Note 4, a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under service concession arrangement) or a combination of both, as appropriate. The intangible asset component is detailed in Note 20, and the financial asset component is as follows:

	2018 HK$'000	2017 HK$'000
Receivables under service concession arrangements	18,300,994	16,205,981
Less: current portion classified as current assets	(426,874)	(330,247)
Non-current portion	17,874,120	15,875,734

During the year, the Group recognised interest income of HK$1,018,015,000 (2017: HK$850,285,000) and construction income of HK$2,670,889,000 (2017: HK$2,367,341,000) as revenue under the line item "income from infrastructure facilities" from service concession arrangements. The effective interest rate applied ranges from 4.90% to 8.00% (2017: 4.90% to 7.83%) per annum and the overall gross profit margin for construction contracts is at 12.3% (2017: 14.7%).

(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.

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

	HK$'000
At 1 January 2017	82,077
Exchange adjustments	6,223
Additions	54
Utilisation	(3,021)
At 31 December 2017	85,333
Exchange adjustments	(7,516)
Additions	416
Acquisition of subsidiaries (Note 40)	11,277
Disposal of subsidiaries (Note 42)	(2,185)
At 31 December 2018	87,325

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25. DEPOSITS PAID ON ACQUISITION OF INVESTMENT PROPERTIES/PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2018, SI Urban Development entered into two land use rights transfer contracts with Shanghai Minhang Land Bureau and Shanghai Xuhui Land Bureau respectively to acquire two parcels of land for the development of residential properties for rental use at a total consideration of RMB1,105,580,000 (equivalent to HK$1,258,916,000). As at 31 December 2018, an amount of RMB586,300,000 (equivalent to HK$667,616,000) was paid as deposits paid for these acquisitions. Up to the date of these consolidated financial statements are authorised for issue, the acquisition of a parcel of land from Shanghai Xuhui Land Bureau at a consideration of RMB456,480,000 (equivalent to HK$519,790,000) has been completed.

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

The related capital commitments are disclosed in Note 44.

26. OTHER NON-CURRENT RECEIVABLES

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

According to the supplementary loan agreement entered into between the Group and the Borrower, the loans carry fixed interest rate at 5% per annum and are repayable on 31 December 2020 and 31 December 2021 by instalments.

27. DEFERRED TAXATION

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

	Accelerated tax depreciation 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 2017, as originally stated	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
Effect of inclusion of Shangtou Real Estate Group (Note 2)	–	–	–	–	–	–	–	–	–	–	–	(10,124)	(10,124)
At 1 January 2017 (restated)	185,199	241,839	3,262,270	1,197,210	(18,877)	3,254,148	282,153	211,986	81,954	151	60,647	(389,813)	8,368,867
Exchange adjustments	1,748	17,134	194,888	158,751	(8,103)	230,123	5,111	14,389	5,724	–	(8,952)	(4,104)	606,709
Additions through acquisition of other subsidiaries (Note 40)	–	–	–	–	–	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 (restated)	175,956	230,265	3,663,069	1,566,684	(66,487)	3,168,173	443,172	186,109	75,981	31	169,808	(176,023)	9,436,738
Exchange adjustments	(1,272)	(10,861)	(178,952)	(88,498)	4,956	(114,548)	(3,772)	(35,668)	(3,333)	–	(4,420)	(22,830)	(459,198)
Additions through acquisition of other subsidiaries (Note 40)	–	–	–	–	–	2,406	–	–	–	–	62,286	–	64,692
(Credited) charged to profit or loss	(9,267)	(28,818)	(82,051)	(9,896)	(42,320)	(225,010)	2,560	(76,761)	(15,938)	(31)	15,164	186,499	(285,869)
Credited to other comprehensive income	–	–	–	–	–	–	–	–	–	–	(14,361)	–	(14,361)
Carved-out (Note 2)	–	–	–	–	–	–	–	–	–	–	441	–	441
At 31 December 2018	165,417	190,586	3,402,066	1,468,290	(103,851)	2,831,021	441,960	73,680	56,710	–	228,918	(12,354)	8,742,443

Notes:

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

	31.12.2018 HK$'000	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Deferred tax liabilities	9,141,540	9,757,519	8,837,612
Deferred tax assets	(399,097)	(320,781)	(468,745)
	8,742,443	9,436,738	8,368,867

(ii) At the end of the reporting period, the Group had unused tax losses of approximately HK$8,238.4 million (2017: HK$7,323.1 million) available for offset against future assessable profits. A deferred tax asset amounting to approximately HK$103.9 million (2017: HK$66.5 million) in respect of tax losses amounting to approximately HK$415 million (2017: HK$266 million) has been recognised. No deferred tax asset was recognised in respect of the remaining tax losses of approximately HK$7,823 million (2017: HK$7,057 million) due to the unpredictability of future profit streams. The Hong Kong tax losses of approximately HK$16.5 million (2017: HK$16.2 million) may be carried forward indefinitely and the remaining PRC tax losses of approximately HK$8,221.9 million (2017: HK$7,306.9 million) will expire in various dates in the next five years.

27. DEFERRED TAXATION (continued)

Notes: (continued)

(iii) Under the Law of the PRC on EIT, withholding tax is imposed on dividends declared in respect of profits earned by PRC entities from 1 January 2008 onwards. At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised was approximately HK$2,594 million (2017: HK$1,973 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.

28. INVENTORIES

	31.12.2018 HK$'000	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Properties under development held for sale	40,002,014	38,050,128	30,478,316
Properties held for sale	16,130,007	12,897,330	14,049,553
Raw materials	1,347,758	1,568,727	1,667,720
Work in progress	38,100	32,311	32,537
Finished goods	277,345	255,062	337,252
Merchandise held for resale	30,610	30,046	22,683
	57,825,834	52,833,604	46,588,061

At 31 December 2018, included in the above balances were properties under development held for sale of HK$40,002,014,000 (2017: HK$38,050,128,000, as restated) which are not expected to be realised within one year.

Included in the properties held for sale as at 31 December 2018 were an amount of HK$8,683,425,000 (2017: HK$6,399,382,000, as restated) which represents properties located in first-tier cities, such as Beijing and Shanghai, the PRC and an amount of HK$7,446,582,000 (2017: HK$6,497,948,000, as restated) which represents properties located in other cities in the PRC, of which an amount of HK$4,095,620,000 (2017: HK$4,136,632,000) had no pre-sale during the year.

The net realisable values of properties held for sale of HK$3,140,199,000 (2017: HK$2,390,070,000, as restated) 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 2018 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 2018, 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, have determined that the net realisable value of these properties is less than their carrying amount and an impairment loss of HK$80,662,000 (2017: HK$280,519,000) has been recognised in the profit or loss.

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29. TRADE AND OTHER RECEIVABLES

	31.12.2018 HK$'000	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Trade receivables			
– Good and services	2,884,593	3,838,738	1,749,985
– Operating lease	25,037	39,702	25,912
	2,909,630	3,878,440	1,775,897
Less: allowance for credit loss	(113,413)	(79,162)	(86,254)
	2,796,217	3,799,278	1,689,643
Other receivables (note vii)	5,567,399	8,577,220	8,599,349
Total trade and other receivables	8,363,616	12,376,498	10,288,992

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$2,884,593,000 and HK$3,838,738,000 respectively.

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 credit loss, presented based on the invoice or contract date, which approximates the respective revenue recognition dates.

	2018 HK$'000	2017 HK$'000
Within 30 days	858,526	2,307,041
Within 31-60 days	357,313	259,332
Within 61-90 days	384,973	144,823
Within 91-180 days	361,000	176,498
Within 181-365 days	281,079	274,976
Over 365 days	553,326	636,608
	2,796,217	3,799,278

(iii) As at 31 December 2018, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$1,173,322,000 which is past due as at reporting date. The management of the Group considers no deterioration in credit qualities of the debtors and the settlement records from those debtors are satisfactory, the management of the Group concludes that these debtors are not considered a default and the impact of ECL for this past due trade receivables is insignificant.

(iv) As at 31 December 2017, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of HK$1,048,560,000 which were past due at the reporting date but for which the Group had not provided for impairment loss because management was of the opinion that the amounts would be fully recoverable as there had not been any significant deterioration in credit quality of the debtors. The Group did not hold any collateral over these balances.

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For the year ended 31 December 2018

29. TRADE AND OTHER RECEIVABLES (continued)

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

	2017 HK$'000
31-60 days	290,137
61-90 days	68,813
91-180 days	124,131
181-365 days	219,872
Over 365 days	345,607
Total	1,048,560

(vi) Movements in the allowance for doubtful debts

	2017 HK$'000
Balance at beginning of the year	86,254
Impairment losses recognised	34,710
Amounts written off as uncollectible	(3,203)
Amounts recovered during the year	(38,599)
Balance at end of the year	79,162

(vii) At 31 December 2018, included in other receivables were amounts of HK$1,404,820,000 (2017: HK$2,224,936,000) due from certain associates of which an amount of HK$1,188,469,000 (2017: HK$1,996,708,000) carries fixed interest at prevailing market interest rates.

(viii) Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 56(b).

30. CONTRACT ASSETS

	31.12.2018 HK$'000	1.1.2018* HK$'000
Amounts due from contract customers	925,371	1,291,540

* The amount in this column is after the adjustments from the application of HKFRS 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

– Construction contracts

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group has recognised a contract asset for any works performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

31. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2017 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
Less: progress billings	(1,966,168)
	1,271,456
Analysed for reporting purposes as:	
Amounts due from customers for contract work	1,291,540
Amounts due to customers for contract work	(20,084)
	1,271,456

As at 31 December 2017, there were no retentions held by customers for contract works. Advances received from customers for contract work amounted to HK$4,805,000.

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

(i) Bank deposits with maturity of less than one year of HK$628,045,000 (2017: HK$751,162,000) 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 0.27% to 2.8% (2017: 0.3% to 2.6%) 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 0.9% to 2.12% (2017: 0.8% to 2.08%) per annum.

(iii) Bank balances (including bank deposits with maturity of less than three months) carry interest at market rates, ranging from 0.0% to 4.6% (2017: 0.00% to 5.40%) 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:

	2018 HK$'000	2017 HK$'000 (restated)
Renminbi	199,764	142,000
United States dollar	672,455	760,453
Hong Kong dollar	63,488	336,509

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33. TRADE AND OTHER PAYABLES

	31.12.2018 HK$'000	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Trade payables (note i)	4,837,599	4,729,190	4,085,857
Consideration payables for acquisition of subsidiaries	126,110	736,249	991,119
Other payables (note ii)	12,629,291	13,823,756	10,990,157
Total trade and other payables	17,593,000	19,289,195	16,067,133

Notes:

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

	2018 HK$'000	2017 HK$'000 (restated)
Within 30 days	1,429,557	1,109,482
Within 31-60 days	275,450	229,024
Within 61-90 days	408,864	460,330
Within 91-180 days	349,819	518,238
Within 181-365 days	1,010,568	1,084,060
Over 365 days	1,363,341	1,328,056
	4,837,599	4,729,190

(ii) Included in other payables as at 31 December 2018 were (a) amounts of HK$452,242,000 (2017: HK$1,605,895,000, as restated), 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 48(I)(a)(iv)), (b) amounts of HK$1,388,000 (2017: HK$1,268,000) due to certain fellow subsidiaries, which are unsecured and have no fixed terms of repayment, (c) accrued expenditure on properties under development of HK$2,464,448,000 (2017: HK$2,458,988,000) and (d) bills payable of HK$1,365,275,000 (2017: HK$1,513,473,000).

34. CONTRACT LIABILITIES

	Notes	31.12.2018 HK$'000	1.1.2018* HK$'000 (restated)
Amounts due to contract customers	(i)	5,805	20,084
Customer deposits from sales of properties	(ii)	15,282,544	16,579,420
		15,288,349	16,599,504

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Construction contracts HK$'000	Sales of properties HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	8,173	12,176,320

* The amounts in this column are after the adjustments from the application of HKFRS 15 in Note 3.1.

Notes:

(i) Construction contracts

When the Group receives deposits before the construction activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

(ii) Sales of properties

Customers deposits from sales of properties are liabilities in relation to contracts with property buyers and their proceeds received on sales of property units that have not been recognised as revenue in accordance with the Group's revenue recognition policy. As at 31 December 2018, the amounts which are expected to be recognised as revenue in the upcoming years are set out in Note 6A, which is under the Group's normal operating cycle and therefore are presented as current liabilities.

35. 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. As at 31 December 2017, an amount of approximately HK$58 million was expected to be recognised as revenue after more than one year, which is under the Group's normal operating cycle and therefore are presented as current liabilities.

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36. BANK AND OTHER BORROWINGS

	31.12.2018 HK$'000	31.12.2017 HK$'000 (restated)	1.1.2017 HK$'000 (restated)
Bank loans	42,938,474	42,248,129	36,127,457
Other loans	8,543,023	10,874,282	10,290,007
	51,481,497	53,122,411	46,417,464
Analysed as:			
Secured	18,982,998	18,972,600	15,008,806
Unsecured	32,498,499	34,149,811	31,408,658
	51,481,497	53,122,411	46,417,464
Carrying amount repayable:			
Within one year	12,921,483	11,816,974	8,553,493
More than one year but not more than two years	10,104,915	6,835,145	8,381,350
More than two years but not more than five years	21,679,736	26,857,127	20,615,007
Over five years	6,775,363	7,613,165	8,867,614
	51,481,497	53,122,411	46,417,464
Less: amounts due within one year shown under current liabilities	(12,921,483)	(11,816,974)	(8,553,493)
	38,560,014	41,305,437	37,863,971

Notes:

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

	2018 HK$'000	2017 HK$'000
Fixed-rate borrowings:		
Within one year	3,076,871	3,727,326
More than one year but not more than two years	39,680	42,581
More than two years but not more than three years	4,307,765	1,895,271
More than three years but not more than four years	4,428,539	2,360,953
More than four years but not more than five years	456,821	1,894,070
More than five years	134,409	175,722
	12,444,085	10,095,923

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

	2018	2017
Effective interest rate:		
Fixed-rate borrowings	0.80%-7.50%	0.80%-7.50%
Variable-rate borrowings	0.80%-6.50%	0.80%-7.48%

36. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(iii) Included in the Group's bank borrowings is an amount of HK$8,370 million (2017: HK$8,351 million, as restated) drawn under syndicated loan facilities of HK$8,370 million (2017: HK$8,351 million, as restated) obtained by the Group. Transaction costs of approximately HK$21 million (2017: 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 2018, the carrying value of such bank borrowings was approximately HK$8,370 million (2017: HK$8,364 million, as restated).

(iv) Included in other loans are advanced bonds (the "Bonds") with an aggregate amount of HK$7,049,043,000 (2017: HK$9,576,977,000) issued by non-wholly owned subsidiaries of the Group (the "Issuers") in the PRC, which are listed on Shanghai Stock Exchange. The Bonds with an aggregate principal amount of RMB6,104,000,000, are unsecured and have maturities of five to seven years falling due between 2021 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 5.69% per annum or a variable rate of Shanghai Interbank Offered Rate plus 1.00% per annum (2017: 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 4.63% to 5.94% per annum (2017: 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.

37. 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 would be redeemed at 105.11% of the principal amount on 18 February 2018 (the "Maturity Date"). CB 2018 were 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.

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.

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

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.

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37. CONVERTIBLE BONDS (continued)

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

	Liability component HK$'000	Equity component HK$'000
At 1 January 2017	32,722	939
Interest charged	727	–
At 31 December 2017	33,449	939
Interest charged	89	–
Redemption upon maturity	(33,538)	(939)
At 31 December 2018	–	–

38. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares, issued and fully paid:		
At 1 January 2017	1,086,565,600	13,633,449
Exercise of share options (note)	646,000	16,390
At 31 December 2017 and 31 December 2018	1,087,211,600	13,649,839

Note: During the year ended 31 December 2017, the Company issued 646,000 shares to the option holders who exercised their share options at the exercise prices of HK$23.69 under the SIHL Scheme (as defined in Note 39). These new shares rank pari passu in all respects with other shares in issue.

39. 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.

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.

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39. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(I) SIHL Scheme (continued)

(b) *During the year ended 31 December 2017, no options were granted and the share options under SIHL Scheme were expired on 16 May 2017.*

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 ended 31 December 2017:

Month of grant	Exercise price per share HK$	Outstanding at 1.1.2017	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2017
May 2012	23.69	1,140,000	(646,000)	(494,000)	–
Exercisable at the end of the year					–
Weighted average exercise price		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 1.1.2017	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2017
May 2012	23.69	600,000	(106,000)	(494,000)	–
Exercisable at the end of the year					–
Weighted average exercise price		23.69	23.69	23.69	N/A

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 ended 31 December 2017, the weighted average share price at the dates of exercise was HK$24.19. Total consideration received for shares issued upon exercise of share options, net of direct issue costs of HK$7,000, was HK$15,297,000.

39. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(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.

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.

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39. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(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.

(b) During the year ended 31 December 2018, no options were granted under SI Urban Development. As at 31 December 2018 and 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, representing 0.58% 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 1.1.2017	Reclassified during the year	Forfeited during the year	Outstanding at 31.12.2017 and 31.12.2018
Former directors of SI Urban Development, who are also directors of the Company	September 2010	2.98	7,000,000	–	(7,000,000)	–
Other directors of SI Urban Development	September 2010	2.98	22,000,000	6,000,000	(7,000,000)	21,000,000
Employees of SI Urban Development	September 2010	2.98	12,750,000	(6,000,000)	–	6,750,000
			41,750,000	–	(14,000,000)	27,750,000
Exercisable at the end of the year						27,750,000

39. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(III) SI Urban Development Scheme (continued)

(b) (continued)

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.

(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.

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39. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(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.

40. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2018

Except for the acquisition of Shangtou Real Estate from SIIC as detailed in Note 2, the Group also acquired the following subsidiaries:

(i) Acquisition of 大連紫光水務有限公司 (Dalian Ziguang Water Treatment Co., Ltd.) ("Dalian Ziguang") and 大連紫光淩水污水處理有限公司 (Dalian Ziguang Lingshui Waste Water Treatment Co., Ltd.) ("Dalian Ziguang Lingshui")

In February 2018, SIIC Environment, a listed subsidiary of the Group, through its 75.5% owned subsidiary, SIIC Environment Holdings (Weifang) Co., Ltd., completed the acquisition of 100% equity interest in Dalian Ziguang for a cash consideration of RMB137,764,000 (equivalent to HK$169,535,000) and 100% equity interest in Dalian Ziguang Lingshui for a cash consideration of RMB123,375,000 (equivalent to HK$151,827,000).

Dalian Ziguang and Dalian Ziguang Lingshui are principally engaged in the operations of waste water treatment plants with an aggregate designed production capacity of 170,000 tons per day, and are based in Dalian City, Liaoning Province, the PRC.

(ii) Acquisition of 濰坊市坊子區上實環境供水總公司 (Weifang City Fangzi District SIIC Environment Water Co., Ltd. (formerly known as 濰坊市坊子區供水總公司 (Weifang City Fangzi District Water Company)) ("Fangzi Water")

In February 2018, SIIC Environment through its 51.3% owned subsidiary, Weifang City Tap Water Co., Ltd., completed the acquisition of 51% equity interest in Fangzi Water for a total subscription consideration of RMB79,080,000 (equivalent to HK$94,732,000).

Fangzi Water is engaged in the operation of one water supply project with total designed production capacity of 40,000 tons per day, and is based in Weifang City, Shandong Province, the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

	Dalian Ziguang HK$'000	Dalian Ziguang Lingshui HK$'000	Fangzi Water HK$'000	Others HK$'000	Total HK$'000
Consideration transferred					
Cash paid	85,036	112,417	–	5,836	203,289
Deposit paid at 31 December 2017	48,462	12,995	–	–	61,457
Interests in joint ventures	–	–	–	71,476	71,476
Deferred consideration	36,037	26,415	–	–	62,452
	169,535	151,827	–	77,312	398,674
Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:					
Property, plant and equipment	–	–	97,743	2,927	100,670
Investments	–	–	–	8,510	8,510
Inventories	–	–	1,711	–	1,711
Receivables under service concession arrangements	177,221	204,230	–	–	381,451
Other intangible assets	36,336	52,567	5,060	–	93,963
Trade and other receivables	88,569	62,316	16,883	77	167,845
Bank balances and cash	1,147	1,424	1,344	152,344	156,259
Trade and other payables	(57,638)	(61,812)	(29,239)	(68,787)	(217,476)
Taxation payable	(12,988)	(11,083)	–	–	(24,071)
Bank and other borrowings	(15,569)	(43,213)	–	–	(58,782)
Deferred tax liabilities	(30,460)	(34,232)	–	–	(64,692)
Provision for major overhauls	(8,096)	(3,181)	–	–	(11,277)
	178,522	167,016	93,502	95,071	534,111
Goodwill arising on acquisition					
Consideration transferred	169,535	151,827	–	77,312	398,674
Add: non-controlling interests	–	–	93,502	17,759	111,261
Less: Net assets acquired	(178,522)	(167,016)	(93,502)	(95,071)	(534,111)
	(8,987)	(15,189)	–	–	(24,176)
Net cash outflow (inflow) arising on acquisition					
Cash consideration paid	85,036	112,417	–	5,836	203,289
Less: bank balances and cash acquired	(1,147)	(1,424)	(1,344)	(152,344)	(156,259)
	83,889	110,993	(1,344)	(146,508)	47,030

40. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

The contribution to the Group's revenue or financial performance of the above acquired subsidiaries for the year ended 31 December 2018 as follows:

(a) Included in the profit for the year were revenue of HK$108,841,000 and net profit of HK$7,675,000, attributable to the additional business generated by Dalian Ziguang.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been approximately HK$30,458 million, and profit after tax would have been approximately HK$5,131 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

(b) Included in the profit for the year were revenue of HK$46,982,000 and net profit of HK$7,730,000, attributable to the additional business generated by Dalian Ziguang Lingshui.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been approximately HK$30,455 million, and profit after tax would have been approximately HK$5,127 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

(c) Included in the profit for the year were revenue of HK$35,545,000 and net loss of HK$992,000, attributable to the additional business generated by Fangzi Water.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been approximately HK$30,417 million, and profit after tax would have been approximately HK$5,093 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017

(i) Acquisition of additional interests in Quanzhou Shangshi Investment

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 (note iii)	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)

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 9).

(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) The trade and other receivables in this transaction had gross contractual amounts of HK$1,593,717,000 which approximates their fair values.

During the year 31 December 2017, the Group also acquired the following subsidiaries:

(ii) 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.

40. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

(iii) 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.

(iv) 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 and technical services in the PRC.

	Hegang Longjiang HK$'000 (note)	Pinghu Dushan HK$'000	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

Note: 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.

41. ASSETS CLASSIFIED AS HELD-FOR-SALE

On 31 December 2018, the directors of SIIC Environment resolved to dispose of one of its subsidiaries. Negotiations with several interested parties have subsequently taken place. The assets and liabilities attributable to the subsidiary, which are expected to be sold within twelve months, have been classified as a disposal group held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", and are presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	2018 HK$'000
Trade and other receivables	12,356
Receivables under service concession arrangements	213,273
Other receivables	229
Inventories	97
Total assets classified as held for sale	225,955
Trade and other payables, and total liabilities associated with assets classified as held for sale	(179,532)

42. DISPOSAL OF SUBSIDIARIES

(i) On 17 April 2018, the Group, through SI Urban Development, entered into a share transfer agreement with an independent third party to dispose of the Group's entire equity interest in Fine Mark Investment Limited ("Fine Mark") at a cash consideration of RMB176,750,000 (equivalent to HK$220,858,000), which comprise RMB120,750,000 (equivalent to HK$150,883,000) for the disposal of equity interest in Fine Mark and RMB56,000,000 (equivalent to HK$69,975,000) for repayment of assigned debts due to the Group.

The principal asset of Fine Mark represents interest in a joint venture. The joint venture, through its subsidiary, owns a property development project in Fuzhou, the PRC.

42. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) In July 2018, the Group, through SIIC Environment disposed of its entire 100% equity interest in Tianmen Kaidi Water Services Co. Ltd. ("Tianmen Kaidi") and 70% equity interest in Tianmen Kaidi Xinnong Water Services Co. Ltd. ("Tianmen Kaidi Xinnong") for considerations of RMB152,333,000 (equivalent to HK$174,015,000) and RMB5,939,000 (equivalent to HK$6,784,000), respectively, to its grantor of the concession service agreement.

Tianmen Kaidi and Tianmen Kaidi Xinnong are principally engaged in supply of tap water in the PRC.

Further details of the consideration, and assets and liabilities disposed of in respect of the disposed subsidiaries are set out below:

	Fine Mark HK$'000	Tianmen Kaidi HK$'000	Tianmen Kaidi Xinnong HK$'000	Total HK$'000
Analysis of assets and liabilities over which control was lost				
Property, plant and equipment	–	771	–	771
Other intangible assets	–	96,213	6,866	103,079
Interest in a joint venture	65,718	–	–	65,718
Inventories	–	2,818	–	2,818
Contract assets	–	462	–	462
Trade and other receivables	–	31,226	–	31,226
Bank balances and cash	–	1,936	72	2,008
Trade and other payables	–	(35,970)	(4,205)	(40,175)
Tax payables	–	(3,275)	–	(3,275)
Contract liabilities	–	(5,396)	–	(5,396)
Bank and other borrowings	–	(4,236)	–	(4,236)
Other non-current liabilities	–	(10,320)	(122)	(10,442)
Non-controlling interests	–	–	(784)	(784)
	65,718	74,229	1,827	141,774
Gain on disposal				
Cash received	220,858	–	–	220,858
Deferred consideration (note)	–	174,015	6,784	180,799
Less: Net assets disposed of	(65,718)	(74,229)	(1,827)	(141,774)
	155,140	99,786	4,957	259,883
Net cash inflow (outflow) arising on disposal				
Cash consideration received	220,858	–	–	220,858
Less: Bank balances and cash disposed of	–	(1,936)	(72)	(2,008)
	220,858	(1,936)	(72)	218,850

note: Deferred consideration arising from disposal of Tianmen Kaidi and Tianmen Kaidi Xinnong has been recognised in other receivables as at 31 December 2018.

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43. 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:

	2018 HK$'000	2017 HK$'000
Within one year	98,483	144,727
In the second to fifth year inclusive	225,597	236,916
After five years	100,124	116,877
	424,204	498,520

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 (2017: 20 years) and rentals are fixed for a lease term of 1 to 5 years (2017: 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:

	2018 HK$'000	2017 HK$'000
Within one year	12,935	48,604

(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:

	2018 HK$'000	2017 HK$'000
Within one year	1,050,719	785,413
In the second to fifth year inclusive	1,793,367	1,485,060
After five years	952,350	735,432
	3,796,436	3,005,905

Note: Included in the above are operating lease commitments for investment properties of approximately HK$42.4 million (2017: HK$49.9 million) receivable by the Group from certain fellow subsidiaries within one year.

44. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
– acquisition of property, plant and equipment	38,537	27,792
– additions in construction in progress	871,494	1,085,862
– additions in properties under development held for sale	11,274,853	4,613,043
– investment in an associate	54,657	57,658
– others	15,129	15,960
	12,254,670	5,800,315

45. CONTINGENT LIABILITIES

	2018 HK$'000	2017 HK$'000
Guarantees given to banks in respect of banking facilities utilised by		
– property buyers	6,355,009	4,652,215
– associates/joint ventures	1,648,581	2,164,269
	8,003,590	6,816,484

Guarantee given to banks in respect of banking facilities utilised by property buyers

The Group entered into agreements with certain banks with respect to mortgage loans provided to buyers of the Group's property units and made deposits as security to and gave guarantees on mortgage loans provided to the buyers by these banks under the agreements. The management of the Group considers that the possibility of default by the relevant buyers is remote and, in case of default in payments, the net realisable value of the related properties can recover the repayment of the outstanding mortgage principals together with the accrued interest and penalty. Accordingly, no ECL under HKFRS 9 (2017: no provision under HKAS 37) has been made in the consolidated financial statements for these guarantees.

Guarantee given to bank in respect of banking facilities utilised by associates/joint ventures

The Group entered into agreements with a bank to provide corporate guarantees with respect to bank loans granted to associates or joint ventures. In determining whether financial liabilities should be recognised in respect of the Group's financial guarantee contracts, the management of the Group exercised judgement in evaluation of the probability of resources outflow that would be required and the assessment of whether a reliable estimate could be made of the amount of the obligation. The management of the Group considered that the possibility of default by these parties was remote given their strong financial background and the good quality of assets. Accordingly, no ECL under HKFRS 9 (2017: no provision under HKAS 37) has been made in the consolidated financial statements for these guarantees.

In the opinion of the management of the Group, the fair values of the aforementioned financial guarantee contracts of the Group are insignificant at initial recognition.

As at 31 December 2018, the Company granted financial guarantees to the extent of approximately HK$10,179 million (2017: HK$13,415 million) to banks in respect of banking facilities granted to its subsidiaries, out of which approximately HK$8,407 million (2017: HK$8,407 million) were utilised.

46. PLEDGE OF ASSETS

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

(i) investment properties with an aggregate carrying value of HK$11,459,467,000 (2017: HK$12,056,862,000);

(ii) leasehold land and buildings with an aggregate carrying value of HK$134,605,000 (2017: HK$150,233,000);

(iii) plant and machineries with an aggregate carrying value of HK$27,173,000 (2017: HK$34,601,000);

(iv) one (2017: one) toll road operating right with a carrying value of HK$2,105,856,000 (2017: HK$2,410,356,000);

(v) receivables under service concession arrangements with an aggregate carrying value of HK$10,196,365,000 (2017: HK$10,131,288,000);

(vi) properties under development held for sale with an aggregate carrying value of HK$2,873,025,000 (2017: HK$1,930,280,000);

(vii) properties held for sale with an aggregate carrying value of HK$736,551,000 (2017: HK$338,443,000);

(viii) trade receivables with an aggregate carrying value of HK$152,084,000 (2017: HK$10,694,000); and

(ix) bank deposits with an aggregate carrying value of HK$628,045,000 (2017: HK$751,162,000).

47. 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$241,144,000 (2017: HK$211,501,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

48. 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	**2018 HK$'000**	2017 HK$'000 (restated)
Transactions			
Ultimate holding company	Rentals paid by the Group on land and buildings (note i)	1,777	1,730
Fellow subsidiaries	Rentals and management fee paid by the Group on land and buildings (note i)	49,585	19,003
Joint venture	Loan provided by the Group	–	696,697
	Interest income received by the Group (notes ii and iii)	–	30,212
Associate	Loan provided by the Group	762,924	–
	Interest income received by the Group (notes ii and iii)	33,842	–
Balance			
Non-controlling shareholders of subsidiaries:			
The Xuhui SASAC and entities controlled by the Xuhui SASAC	Non-trade payables by the Group (note iv)	452,242	1,605,895

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48. 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 43.

(ii) In September 2014, 上海滬寧高速公路（上海段）發展有限公司(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, an associate (2017: a joint venture) of the Group. 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 2016, 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 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.

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 the amount of RMB30,000,000 (equivalent to HK$36,036,000). The amount has been fully repaid during the year ended 31 December 2018.

In June 2018, both parties entered into the forth 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 the amount of RMB120,000,000 (equivalent to HK$136,643,000).

As at 31 December 2018, the loan provided to Shanghai Galaxy amounted to RMB470 million (equivalent to approximately HK$535 million) (2017: RMB380 million (equivalent to approximately HK$456 million) is included in other receivables set out in Note 29, and loan interest income from Shanghai Galaxy amounted to RMB20 million (equivalent to approximately HK$24 million) (2017: RMB17 million (equivalent to approximately HK$20 million)) is included in net investment income set out in Note 7.

(iii) In September 2016, 上海申渝公路建設發展有限公司("Shen-Yu Highway"), a wholly-owned subsidiary of the Group, 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 the second 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.

In June 2018, Shen-Yu Highway, the Bank and Shanghai Galaxy entered into the third 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 June 2018 to June 2019 (2017: twelve months commencing from October 2017). The interest rate of such loan was 4.64% (2017: 4.64%) per annum.

As at 31 December 2018, the loan provided to Shanghai Galaxy amounted to RMB200 million (equivalent to approximately HK$227 million) (2017: RMB200 million (equivalent to approximately HK$240 million)) is included in other receivables set out in Note 29.

(iv) The amounts due to the Xuhui SASAC and entities controlled by the Xuhui SASAC included in Note 33(ii) are unsecured. An amount of HK$227,738,000 (2017: HK$240,240,000) included in the balances as at 31 December 2018 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 a rate of 9% per annum (2017: 9%) per annum and is repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable on demand.

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

(I) Connected persons (Continued)

(b) 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 borrower(s) 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 with the interest rate of such loan was 4.64% per annum. During the year ended 31 December 2018, the amount has been fully repaid by SIIC Financial Services upon the expiry of the term.

(c) 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 which represents 11.27% equity interest in Wufangzhai for a total consideration of RMB162,764,700. Upon completion of the acquisition, Wufangzhai was accounted for as an associate and owned by the Group as to 23.97%.

(d) On 31 January 2018, Shanghai Urban Development (Holdings) Co., Ltd. ("Shanghai Urban Development Holdings"), an indirect non wholly-owned subsidiary of the Company, entered into an asset and equity transfer contract with Shangtou Asset pursuant to which Shanghai Urban Development Holdings agreed to acquire a 35% equity interest in 上海地產北部投資發展有限公司 ("NR Investment") for RMB88,338,100. The Group accounted for the equity interest in NR Investment as investment in an associate using equity method.

(e) Pursuant to an asset transfer agreement and a supplemental agreement on 28 February 2018, 上實城開（上海）城市建設開發有限公司("SIUD Shanghai"), an indirect non-wholly owned subsidiary of the Company agreed to acquire the entire equity interest in Shangtou Real Estate (excluding certain investment properties and inventories of Shangtou Real Estate) with total purchase price of RMB530,827,000 (equivalent to HK$657,086,000).

The Group accounts for all its business combinations involving entities under common control using the principles of merger accounting in accordance with AG5.

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

(I) Connected persons (Continued)

(f) On 8 June 2018, Shen-Yu Highway and a bank entered into an entrusted loan entrustment contract, pursuant to which Shen-Yu Highway agreed to entrust a sum of RMB100,000,000 with the bank which should provide loan(s) to designated borrower(s) upon instructions from Shen-Yu Highway. On the same date, the bank and SIIC Financial Services entered into an entrusted loan contract (the "Entrusted Loan Contract of Shen-Yu Highway") in respect of the provision of the loan in the principal amount of RMB100,000,000 to be made pursuant to the Entrusted Loan Contracts of Shen-Yu Highway, through a bank, to SIIC Financial Services.

The entrusted loan was for a term of one year from the date of the entrusted loan arrangement. The interest rate of such loan was 5.50% per annum.

(g) On 19 June 2018, Sure Advance Holdings Limited ("Sure Advance"), a wholly-owned subsidiary of the Company, entered into a cornerstone investment agreement (the "Agreement") with China Isotope & Radiation Corporation ("CIRC") and other joint global coordinators to the proposed conditional placing of the CIRC H Shares (the "International Offering") with consideration of no more than RMB430,000,000.

Shanghai Pharmaceuticals (HK) Investment Limited ("SP (HK)"), an indirectly non-wholly owned subsidiary of SIIC participated in the International Offering by entering into a separate cornerstone investment agreement on similar terms on the same date. Further details of these transactions are set out in the Company's announcement dated 19 June 2018.

(h) On 1 July 2018, 上海躋沄基礎建設有限公司("Shanghai Jiyun"), an indirect wholly owned subsidiary of the Company, Shangtou Asset and Shanghai Galaxy entered into a joint venture agreement (the "JV Agreement") in relation to the formation of a joint venture company namely 上實清潔能源（上海）有限公司("SI Clean Energy"), whereas the SI Clean Energy was established on 23 July 2018 in Shanghai, the PRC and SI Clean Energy is accounted for as a joint venture using equity method. The SI Clean Energy is principally engaged in the promotion of new energy technology and environmental protection technology. Further details of this transaction are set out in the Company's announcement dated 23 July 2018.

(i) At 31 December 2018, included in bank and other borrowings as set out in Note 36, a bank borrowing amounting to approximately RMB500 million (equivalent to approximately HK$569 million) (2017: RMB500 million (equivalent to approximately HK$601 million)) was secured by properties owned by the Group and a fellow subsidiary of the Group.

(j) Details of amounts due to certain fellow subsidiaries are set out in Note 33.

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

(II) Related parties, other than connected persons

In addition to the transactions set out in Note 48(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	2018 HK$'000	2017 HK$'000
Associates:			
上海城開地產經紀有限公司	Property agency fees paid by the Group	20,034	17,142
(Shanghai Urban Development Real Estate Agency Co., Ltd.)	Trade payables by the Group	10,451	5,771

Details of amounts due from (to) associates are set out in Notes 29 and 33, respectively.

(III) Compensation of key management personnel

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

	2018 HK$'000	2017 HK$'000
Short-term benefits	25,123	25,068

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

49. 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 48, 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.

50. GOVERNMENT GRANTS

During the year ended 31 December 2017, government grants of HK$55.4 million (2018: Nil) was 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$245.1 million (2017: HK$245.4 million) were received in the current year. Besides, an amount of approximately HK$111.7 million (2017: HK$125.6 million) was received as incentives for investments in certain provinces in the PRC. These amounts have been included in other income.

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51. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2018 and 2017 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 2018	2017	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
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
Shen-Yu Highway (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 – RMB5,951,889,000	46.67% (Note 5)	46.30% (Note 5)	Sewage treatment and water supply
S.I. Infrastructure Holdings Limited ("S.I. Infrastructure")	The British Virgin Islands/Hong Kong	Ordinary share – US$1	100%	100%	Investment holding
SIHL Treasury Limited ("SIHL Treasury")	Hong Kong	Ordinary shares – HK$2	100%	100%	Investment
Nanyang Tobacco (Marketing) Company, Limited	The British Virgin Islands/PRC and Macau	Ordinary shares – US$1 – HK$100,000,000	100%	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers Tobacco Company, Limited	Hong Kong	Ordinary shares – HK$2	100%	100%	Manufacture and sale of cigarettes
		Non-voting deferred shares (note vi) – HK$8,000,000	–	–	
The Wing Fat Printing Company, Limited	Hong Kong	Ordinary shares – HK$83,030,000	94.29%	94.29%	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

51. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(i) This company is listed on the A Shares Market of the Shanghai Stock Exchange.

(ii) This company is listed on the Main Board of the Stock Exchange.

(iii) These companies were established in the PRC as wholly foreign owned enterprises.

(iv) This company is dual listed on the Main Board of the SGX-ST and Main Board of the Stock Exchange (2017: listed on the Main Board 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) 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 36 and 37.

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 (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018 HK$'000**	2017 HK$'000 (restated)	**2018 HK$'000**	2017 HK$'000 (restated)
SI Development	The PRC	51.40%	51.40%	484,170	812,862	6,635,875	6,914,944
SI Urban Development	Bermuda/The PRC	30.04%	30.04%	229,459	(3,106)	3,251,353	3,400,946
Shanghai Urban Development (Holdings) Co., Ltd. ("SUD")	The PRC	41%	41%	600,703	553,140	6,446,085	6,474,826
SIIC Environment	The Republic of Singapore/The PRC	53.33%	53.70%	335,160	342,473	4,492,471	5,086,446
Individually immaterial subsidiaries with non-controlling interests				111,159	294,174	7,401,888	7,568,212
				1,760,651	1,999,543	28,227,672	29,445,374

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51. PRINCIPAL SUBSIDIARIES (Continued)

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

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

	SI Development (Consolidated)		SI Urban Development (Consolidated, including SUD)		SUD (Consolidated)		SI Environment (Consolidated)	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000 (restated)	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Current assets	36,078,459	40,637,244	41,540,703	45,003,249	28,024,853	31,650,881	6,699,462	5,132,163
Non-current assets	9,203,841	8,951,836	17,499,626	19,448,648	6,024,816	4,926,471	27,527,644	25,964,561
Current liabilities	(19,685,950)	(21,806,731)	(18,401,644)	(22,006,253)	(8,215,030)	(12,193,426)	(10,288,775)	(8,076,856)
Non-current liabilities	(11,253,691)	(12,556,312)	(17,131,538)	(18,248,333)	(8,863,663)	(7,353,726)	(11,221,951)	(10,537,493)
Equity attributable to owners of the Company	6,892,973	7,268,354	9,940,680	10,366,689	9,275,584	9,317,432	5,709,554	5,381,634
Non-controlling interests	6,635,875	6,914,944	3,251,353	3,400,946	6,446,085	6,474,826	4,992,471	5,086,446
Non-controlling interests of Group's subsidiaries	813,811	1,042,739	10,315,114	10,429,676	1,249,307	1,237,942	2,014,355	2,014,295

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For the year ended 31 December 2018

51. PRINCIPAL SUBSIDIARIES (Continued)

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

	SI Development (Consolidated)		SI Urban Development (Consolidated, including SUD)		SUD (Consolidated)		SI Environment (Consolidated)	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000 (restated)	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Revenue	10,224,119	8,236,016	6,977,683	9,372,903	5,335,971	7,260,563	6,318,424	5,388,540
Profit for the year	1,225,220	1,634,873	1,269,747	800,803	1,505,752	1,380,129	746,874	725,470
Other comprehensive income (expense) for the year	(825,999)	(864,379)	(520,022)	608,974	(997,389)	972,371	(278,362)	274,894
Total comprehensive income (expense) for the year	(399,221)	770,494	749,725	1,409,777	508,363	2,352,500	468,512	1,000,364
Profit for the year attributable to the owners of the Company	457,795	768,582	343,615	112,696	860,814	795,982	239,696	211,517
Profit (loss) for the year attributable to the non-controlling interests	484,170	812,862	229,459	(3,106)	600,703	553,140	335,160	342,473
Profit for the year attributable to the non-controlling interests of Group's subsidiaries	283,255	53,429	696,673	691,213	44,235	31,007	172,018	171,480
Total comprehensive income for the year attributable to the owners of the Company	56,360	348,940	571,243	541,267	321,127	1,290,419	114,225	330,606
Total comprehensive income for the year attributable to the non-controlling interests	59,606	368,125	21,243	179,968	261,944	1,031,074	186,710	498,278
Total comprehensive income (expense) for the year attributable to the non-controlling interests of Group's subsidiaries	283,255	53,429	157,239	688,542	(74,708)	31,007	167,577	171,480
Dividends paid to non-controlling interests	53,722	41,384	59,254	47,680	126,138	169,713	79,414	68,255
Net cash inflow (outflow) from operating activities	2,425,952	712,061	296,309	(267,965)	(9,252)	(277,249)	(458,058)	(1,340,519)
Net cash inflow (outflow) from investing activities	(1,107,329)	132,107	(391,654)	15,755	(785,507)	(70,478)	(490,576)	(554,574)
Net cash (outflow) inflow from financing activities	(4,939,771)	(2,116,927)	(3,606,521)	(373,171)	(1,082,557)	(1,449,395)	1,827,559	1,667,774
Net cash inflow (outflow)	(3,621,148)	(1,272,759)	(3,701,866)	(625,381)	(1,877,316)	(1,797,122)	878,925	(227,319)

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52. PRINCIPAL JOINT VENTURES

Particulars of the Group's principal joint ventures at 31 December 2018 and 2017 are as follows:

Name of joint venture	Place of establishment/ operations	Percentage of registered capital attributable to the Group 2018	2017	Principal activities
Shanghai Galaxy	The PRC	N/A (note iii)	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 businesses 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.

(iii) On 30 June 2018, there was a capital injection by fellow subsidiaries (Note 21(i)) to Shanghai Galaxy. Subsequent to the capital injection, the equity interest in Shanghai Galaxy has been diluted to 45%. The Group accounts for the investment as an associate of the Group, as detailed in Note 21(i).

53. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2018 and 2017, which are all established in the PRC, are as follows:

Name of associate	Form of entity	Percentage of registered capital attributable to the Group 2018	2017	Principal activities
Shanghai Shentian	Sino-foreign joint venture	14.5%	14.5% (note i)	Property development
Hangzhou Bay Bridge	Sino-foreign joint venture	23.06%	23.06%	Holding a right to operate a road bridge
Canvest Environmental	Limited liability company	17.53% (Note 22 (ii))	14.52%	Provision of municipal solid waste handling services and operation and management of waste-to-energy plants in the PRC
Shanghai Galaxy (note iii)	Limited Liability company	45%	N/A	Operation of photovoltaic related business in the PRC and provision of asset management services

53. PRINCIPAL ASSOCIATES (Continued)

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) Shanghai Galaxy was reclassified from a joint venture to an associate during the year (Note 21(i)).

(iii) The above associates are indirectly held by the Company.

(iv) The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

54. 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 businesses

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 2018

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
REVENUE					
Segment revenue-external sales	8,805,425	17,201,802	4,405,656	–	30,412,883
Segment operating profit (loss)	2,876,417	5,988,411	1,325,933	(407,446)	9,783,315
Finance costs	(671,239)	(1,141,157)	(2,485)	(154,568)	(1,969,449)
Share of results of joint ventures	195,773	663	–	–	196,436
Share of results of associates	270,971	(32,907)	6,525	–	244,589
Gain on disposal of subsidiaries and interest in a joint venture	113,153	155,139	–	–	268,292
Segment profit (loss) before taxation	2,785,075	4,970,149	1,329,973	(562,014)	8,523,183
Income tax expense	(592,063)	(2,554,753)	(234,939)	(47,757)	(3,429,512)
Segment profit (loss) after taxation	2,193,012	2,415,396	1,095,034	(609,771)	5,093,671
Less: segment profit attributable to non-controlling interests	(444,495)	(1,297,591)	(18,565)	–	(1,760,651)
Segment profit (loss) after taxation attributable to owners of the Company	1,748,517	1,117,805	1,076,469	(609,771)	3,333,020

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54. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2017 (restated)

	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	17,608,919	4,186,370	–	29,520,325
Segment operating profit (loss)	2,736,016	6,405,385	1,280,407	(101,874)	10,319,934
Finance costs	(589,281)	(1,131,545)	(3,819)	(74,733)	(1,799,378)
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	5,698,417	1,305,128	(176,607)	9,371,656
Income tax expense	(554,517)	(3,292,743)	(219,332)	(170,339)	(4,236,931)
Segment profit (loss) after taxation	1,990,201	2,405,674	1,085,796	(346,946)	5,134,725
Less: segment profit attributable to non-controlling interests	(456,850)	(1,527,158)	(15,535)	–	(1,999,543)
Segment profit (loss) after taxation attributable to owners of the Company	1,533,351	878,516	1,070,261	(346,946)	3,135,182

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

Segment assets and liabilities

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

At 31 December 2018

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Segment assets	51,766,999	104,332,943	7,723,938	3,595,565	167,419,445
Segment liabilities	20,806,750	66,705,624	767,987	9,636,116	97,916,477

At 31 December 2017 (restated)

	Infrastructure facilities HK$'000	Real estate HK$'000	Consumer products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Segment assets	49,584,746	114,101,361	7,172,620	3,523,414	174,382,141
Segment liabilities	18,394,075	74,048,153	914,835	9,837,138	103,194,201

54. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

2018

	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)	723,435	782,115	230,538	619	1,736,707
Depreciation and amortisation	1,221,408	192,240	245,863	1,659	1,661,170
Gain on land resumption	–	(538,579)	–	–	(538,579)
Impairment loss on bad and doubtful debts	6,291	36,272	12,957	–	55,520
Reversal of impairment loss on bad and doubtful debts	(763)	(401)	(4,152)	–	(5,316)
Impairment loss on properties held for sale	–	80,662	–	–	80,662
Interest income	(112,387)	(370,283)	(59,172)	(62,717)	(604,559)
Interests in joint ventures	2,729,660	626,281	–	–	3,355,941
Interests in associates	5,021,749	1,390,187	70,118	–	6,482,054

2017 (restated)

	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	168,850	209,283	2,087	1,539,053
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
Interest income	(120,949)	(540,566)	(54,280)	(43,063)	(758,858)
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

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

54. SEGMENT INFORMATION (Continued)

Geographical information

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

The Group's revenue from 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	
	2018 HK$'000	2017 HK$'000 (restated)
PRC	27,383,778	26,674,162
Asia areas, other than Hong Kong and the PRC	1,344,725	1,287,131
Hong Kong (place of domicile)	866,163	833,770
Other areas	818,217	725,262
	30,412,883	29,520,325

	Non-current assets (note)	
	2018 HK$'000	2017 HK$'000 (restated)
PRC	51,383,377	54,427,107
Hong Kong (place of domicile)	1,390,156	1,410,199
	52,773,533	55,837,306

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.

55. 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 36 and 37, 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.

56. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000 (restated)
Financial assets		
FVTPL		
Mandatorily measured at FVTPL		
– Held for trading	809,556	265,452
– Others	116,737	–
	926,293	265,452
Designated as at FVTPL	–	217,593
	926,293	483,045
Equity instruments at FVTOCI	681,649	–
Financial assets at amortised cost (including cash and cash equivalents)	50,771,587	–
Loans and receivables (including cash and cash equivalents)	–	59,268,316
Available-for-sale investments	–	820,747
Financial liabilities		
Amortised cost	63,220,605	66,625,554

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, equity instruments at FVTOCI, trade and other receivables, receivables under service concession arrangements, pledged bank deposits, short-term bank deposits, bank balances and cash, amount due from subsidiaries available-for-sale investments, trade and other payables, amount due to subsidiaries, bank and other borrowings and liability component of 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.

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56. 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	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Renminbi (against Hong Kong dollar)	387,790	144,800	2,003	2,079
United States dollar (against Hong Kong dollar and Renminbi)	2,625,086	1,567,057	2,816,058	1,819,092
Hong Kong dollar (against Renminbi)	1,483,649	54,837	487,697	380,082

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% (2017: 5%) increase and decrease in the functional currency of each group entity against the above foreign currency. 5% (2017: 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% (2017: 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.

	2018 HK$'000	2017 HK$'000 (restated)
Increase in profit after taxation	65,039	15,783

56. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk

The Group's fair value and cash flow interest rate risks mainly relate to fixed and variable rates borrowings respectively. The Group's receivables under service concession arrangements, pledged bank deposits, fixed-rate amounts due to certain fellow subsidiaries/associates, loan to a joint venture/an associate 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 (2017: 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 (2017: 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$158,015,049 (2017: HK$170,544,000, as restated). 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 financial assets at FVTPL (2017: Available-for-sale investments/Investments held-for-trading/Financial assets designated as FVTPL) or equity instruments at FVTOCI (2017: Available-for-sale investments). 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 instruments held by the Group at the reporting date:

If the prices of the respective quoted equity instruments had been 5% (2017: 5%) higher/lower:

- profit after taxation for the year would increase/decrease by HK$33,772,000 (2017: HK$16,264,000) as a result of the changes in fair value of financial assets at FVTPL; and
- investment revaluation reserve would increase/decrease by HK$5,461,000 (2017: HK$9,299,000) as a result of the changes in fair value of available-for-sale investments.

56. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment

As at 31 December 2018, 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 45.

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Under HKAS 39, provisions for impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 January 2018, the Group recognises lifetime ECL as prescribed by HKFRS 9 under simplified approach on trade receivables and contract assets; and recognises 12m ECL on receivables under service concession arrangements and other receivables. To measure the ECL of trade receivables and contract assets, they are assessed collectively using provision matrix based on shared characteristics including historical credit loss experience, industry specific factors to the debtors, general economic conditions and the available and supportive forward-looking information, including time value of money where appropriate. To measure the ECL of receivables under service concessions and other receivables, they are assessed individually on the recoverability based on historical settlement records, past experience, and also the available and supportive forward-looking information.

The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of trade and other receivables, receivables under service concession arrangement and contract assets.

With respect to the credit risk of the Group's treasury operations, all bank balances, 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 receivable under service concession arrangements is limited as these receivables are guaranteed by the relevant governmental authorities in the PRC.

The Group's concentration of credit risk by geographical locations of customers are mainly in the PRC and Hong Kong which accounted for 95% (2017: 97%) and 5% (2017: 3%), respectively, of the trade receivables as at 31 December 2018.

The Group's credit risk on bank balances and bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

56. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The Group has concentration of credit risk in relation to amounts due from associates which account for 25% (2017: 26%, as restated) 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.

The tables below detail the credit risk exposures of the Group's trade and other receivables, contract assets, receivables under service concession arrangements, pledged/short-term bank deposits and bank balances, which are subject to ECL assessment:

31 December 2018	notes	12-month or Lifetime ECL	Gross carrying amount HK$'000	HK$'000
Financial assets at amortised cost				
Trade receivables (Note 29)	(ii)	Lifetime ECL – not credit-impaired	2,796,217	
	(ii)	Lifetime ECL – credit-impaired	113,413	2,909,630
Other receivables (Note 29)	(i)	12m ECL	3,000,572	
	(i)	Lifetime ECL – not credit-impaired	569,155	
	(i)	Lifetime ECL – credit-impaired	68,277	3,638,004
Receivables under service concession arrangements (Note 24)	(i)	12m ECL		18,300,994
Pledged bank deposits (Note 32)	(iii)	12m ECL		628,045
Short-term deposits (Note 32)	(iii)	12m ECL		344,134
Bank balances (Note 32)	(iii)	12m ECL		25,132,470
Other items				
Contract assets (Note 30)	(ii)	Lifetime ECL – not credit-impaired		925,371
Financial guarantees	(iv)	12m ECL		8,003,590

Notes:

(i) For other receivables and receivables under service concession arrangements, the Group measures the loss allowance equal to 12m ECL. The Group applies internal credit risk management to assess whether credit risk has increased significantly since initial recognition, in which case the Group recognises lifetime ECL. Except for other receivables of HK$68,277,000 which are credit-impaired and ECL has been provided as at 31 December 2018, the credit risk on other receivables and receivables under service concession arrangements are limited because the counterparties have no historical default record and the ECL on these items are considered insignificant.

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56. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Notes: (Continued)

(ii) For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items using a provision matrix, grouped by past due status.

During the year ended 31 December 2018, no material impairment on contract assets is provided based on ECL assessment. Impairment allowance of HK$55,520,000 were made on credit impaired trade receivables.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (credit-impaired) HK$'000
As at 31 December 2017 under HKAS 39	79,612
Adjustment upon application of HKFRS 9	–
As at 1 January 2018	
– As restated	79,612
Changes due to financial instruments recognised as at 1 January:	
– Impairment losses recognised	55,520
– Impairment losses reversed	(5,316)
– Write-offs	(16,403)
As at 31 December 2018	**113,413**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. During the year ended 31 December 2018, the Group has written off trade receivables of HK$16,403,000.

(iii) Pledged bank deposits, short term deposits and bank balances that are deposited with state-owned banks or financial institutions with high credit rating to be low credit risk financial assets. The management of the Group considers these assets are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, no loss allowance was recognised during the year.

(iv) For financial guarantee contracts, the gross carrying amount representing the maximum amount the Group has guaranteed under the respective contracts. Further details are set out in Note 45.

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$'000	Carrying amount at 31.12.2018 HK$'000
2018							
Non-interest bearing	–	4,173,952	1,260,625	4,581,809	1,363,341	11,379,727	11,379,727
Fixed interest rate instruments	4.24	43,861	83,478	3,639,579	10,339,063	14,105,981	12,671,824
Variable interest rate instruments	4.23	119,677	214,432	10,792,510	29,800,227	40,926,846	39,169,054
		4,337,490	1,558,535	19,013,898	41,502,631	66,412,554	63,220,605
Financial guarantee contracts		8,003,590	–	–	–	8,003,590	–

56. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	Less than 1 month or on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2017 HK$'000
2017							
Non-interest bearing	–	3,695,315	1,214,905	6,102,289	1,328,056	12,340,565	12,340,565
Fixed interest rate instruments	4.28	35,641	101,208	4,837,112	7,385,270	12,359,231	11,258,501
Variable interest rate instruments	3.75	137,889	258,528	9,140,883	36,927,903	46,465,203	43,026,488
		3,868,845	1,574,641	20,080,284	45,641,229	71,164,999	66,625,554
Financial guarantee contracts		6,816,484	–	–	–	6,816,484	–

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 as at 31 December 2017 before adoption of HKFRS 9, the directors of the Company consider that the carrying amounts of other financial instruments that are recorded at amortised cost in these consolidated financial statements approximate their fair values.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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56. FINANCIAL INSTRUMENTS (Continued)

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

Financial assets	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000 (restated)	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input(s)
Available-for-sale investments					
Listed equity securities	N/A	185,986	Level 1	Quoted bid prices in an active market	N/A
Investments held for trading					
Listed equity securities	–	265,452	Level 1	Quoted bid prices in an active market	N/A
Financial assets at FVTPL					
Listed equity securities	440,827	–	Level 1	Quoted bid prices in an active market	N/A
Structured deposits – Equity linked notes	15,252	N/A	Level 2	Quoted prices in the over-the-counter markets	N/A
Corporate bonds	368,729	N/A	Level 2	Quoted prices in the over-the-counter markets	N/A
Funds	70,099	N/A	Level 2	Quoted prices in the over-the-counter markets	N/A
Unlisted equity securities	31,386	N/A	Level 3	Adjusted net asset value method under cost approach	Discount factor of lack of control, the higher the discount factor, the lower the fair value
Financial assets designated as at FVTPL					
Structured deposits – Equity linked notes	N/A	15,218	Level 2	Quoted prices in the over-the-counter markets	N/A
Corporate bonds	N/A	125,077	Level 2	Quoted prices in the over-the-counter markets	N/A
Trust funds	N/A	77,298	Level 2	Quoted prices in the over-the-counter markets	N/A
Financial assets at FVTOCI					
Listed equity security	109,129	N/A	Level 1	Quoted bid prices in an active market	N/A
Unlisted equity securities	572,430	N/A	Level 3	Adjusted net asset value method under cost approach	Discount factor of lack of control the higher the discount factor, the lower the fair value

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

56. FINANCIAL INSTRUMENTS (Continued)

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

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted available–for-sale investment HK$'000	Unlisted equity instruments at FVTPL HK$'000	Unlisted equity instruments at FVTOCI HK$'000	Total HK$'000
Closing balance at 31 December 2017 (restated in Note 2) - HKAS 39	634,761	–	–	634,761
Effect arising from initial application of HKFRS 9:				
Reclassification				
From available-for-sale investments	(634,761)	31,417	603,344	–
Opening balance at 1 January 2018 - HKFRS 9	–	31,417	603,344	634,761
Fair value gains in other comprehensive income	–	–	21,101	21,101
Disposals/settlements	–	–	(24,024)	(24,024)
Exchange losses	–	(31)	(27,968)	(27,999)
Others	–	–	(23)	(23)
At 31 December 2018	–	31,386	572,430	603,816

Fair value measurements and valuation processes

The directors of the Company have closely monitored and determined 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.

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57. 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$'000 (note)	Convertible bond HK$'000	Interests payable (included in other payables) HK$'000	Dividend payable (included in other payables) HK$'000	Amount due to a related party (included in other payables) HK$'000	Amounts due to fellow subsidiaries (included in other payables) HK$'000	Total HK$'000
At 1 January 2017 (originally stated)	46,149,487	32,722	208,259	–	118,356	1,086	46,509,910
Effect of inclusion of Shangtou Real Estate Group (Note 2)	267,977	–	–	–	–	–	267,977
At 1 January 2017 (restated)	46,417,464	32,722	208,259	–	118,356	1,086	46,777,887
Financing cash flows	2,194,254	–	(2,370,846)	(1,000,234)	473,559	182	(703,085)
Non-cash changes							
Dividend declared (Note 13)	–	–	–	1,000,234	–	–	1,000,234
Finance costs (including amounts capitalised in properties under development held for sale) (Note 8)	–	727	2,371,563	–	–	–	2,372,290
Acquisition of subsidiaries (Note 40)	69,757	–	–	–	–	–	69,757
Exchange difference	4,440,936	–	15,109	–	3,891	–	4,459,936
At 31 December 2017 (restated)	53,122,411	33,449	224,085	–	595,806	1,268	53,977,019
Financing cash flows	710,248	(33,538)	(2,745,919)	(1,043,723)	(355,566)	120	(3,468,378)
Non-cash changes							
Dividend declared (Note 13)	–	–	–	1,043,723	–	–	1,043,723
Finance costs (including amounts capitalised in properties under development held for sale) (Note 8)	–	89	2,746,008	–	–	–	2,746,097
Acquisition of subsidiaries (Note 40)	58,782	–	–	–	–	–	58,782
Exchange difference	(2,409,944)	–	(67,205)	–	(12,502)	–	(2,489,651)
At 31 December 2018	51,481,497	–	156,969	–	227,738	1,388	51,867,592

Note: The cash flows from bank and other borrowings comprise the net amount of new bank and other borrowings raised and repayment of bank and other borrowings.

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-Current Assets		
Property, plant and equipment	2,895	3,767
Investments in subsidiaries	735,055	735,055
	737,950	738,822
Current Assets		
Deposits, prepayments and other receivables	7,086	6,183
Amounts due from subsidiaries	35,270,737	34,501,832
Bank balances and cash	1,369,684	1,304,177
	36,647,507	35,812,192
Current Liabilities		
Other payables and accrued charges	28,746	31,219
Amounts due to subsidiaries	4,883,212	5,202,684
Taxation payable	182,005	187,237
	5,093,963	5,421,140
Net Current Assets	31,553,544	30,391,052
Total Assets less Current Liabilities	32,291,494	31,129,874
Capital and Reserves		
Share capital	13,649,839	13,649,839
Share premium and reserves	18,641,655	17,480,035
Total Equity	32,291,494	31,129,874

Zhou Jun
Chief Executive Officer

Xu Bo
Deputy Chief Executive Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

59. 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 2017	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 13)	–	–	–	(1,000,234)	(1,000,234)
At 31 December 2017	–	71,711	1,137,728	16,270,596	17,480,035
Profit for the year	–	–	–	2,205,343	2,205,343
Transfer upon maturity of convertible bonds	–	(71,711)	–	71,711	–
Dividends paid (Note 13)	–	–	–	(1,043,723)	(1,043,723)
At 31 December 2018	–	–	1,137,728	17,503,927	18,641,655

Notes:

(i) The Company's reserves available for distribution to shareholders as at 31 December 2018 comprised of retained profits of approximately HK$17,504 million (2017: HK$16,271 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				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000 (restated)	**2018** **HK$'000**
RESULTS					
Revenue	21,333,017	19,693,682	22,131,758	29,520,325	30,412,883
Profit before taxation	6,990,055	5,762,985	7,499,270	9,371,656	8,523,183
Income tax expense	(2,632,812)	(2,071,025)	(2,659,370)	(4,236,931)	(3,429,512)
Profit for the year	4,357,243	3,691,960	4,839,900	5,134,725	5,093,671
Profit for the year attributable to					
– Owners of the Company	3,096,256	2,826,764	2,903,030	3,135,182	3,333,020
– Non-controlling interests	1,260,987	865,196	1,936,870	1,999,543	1,760,651
	4,357,243	3,691,960	4,839,900	5,134,725	5,093,671
	HK$	HK$	HK$	HK$	HK$
Earnings per share					
– Basic	2.860	2.605	2.673	2.884	3.066
– Diluted	2.657	2.500	2.639	2.882	3.065

	As at 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000 (restated)	2017 HK$'000 (restated)	**2018** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	140,014,121	144,700,693	153,259,029	174,382,141	167,419,445
Total liabilities	(86,538,870)	(89,407,443)	(90,527,634)	(103,194,201)	(97,916,477)
	53,475,251	55,293,250	62,731,395	71,187,940	69,502,968
Equity attributable to owners of the Company	35,271,483	36,031,634	37,094,036	41,742,566	41,275,296
Non-controlling interests	18,203,768	19,261,616	25,637,359	29,445,374	28,227,672
	53,475,251	55,293,250	62,731,395	71,187,940	69,502,968

Note: The results for each of the two years ended 31 December 2018 and the assets and liabilities as of 31 December 2016, 2017 and 2018 are extracted from the 2018 annual report and they have been adjusted for the inclusion of Shangtou Real Estate Group on a merger basis (see Note 2 to the consolidated financial statements).

The results for each of the three years ended 31 December 2016 and the assets and liabilities as of 31 December 2014 and 2015 have not been adjusted for the acquisition of Shangtou Real Estate Group.

PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of the Group's major properties held for investment purposes as at 31 December 2018 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. 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%
4. 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%
5. Lot No. B2, Phase I of Top City (城上城) No. 1 Aoti 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%
6. The commercial building at Phase 3 of Youngman Point, No. 2 Gan Lu Yuan Zhong Li, Qingnian Road, Chaoyang District, Beijing, the PRC	Held under a land use right for a term expiring on 5 February 2044	Commercial	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%
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)
CIRC	China Isotope & Radiation Corporation (HKSE stock code: 1763)
Companies Ordinance	Companies Ordinance (Chapter 622) of the laws of Hong Kong
Company	Shanghai Industrial Holdings Limited (HKSE stock code: 363)
Director(s)	director(s) of the Company
Fudan Water	Fudan Water Engineering and Technology Co., Ltd.
Galaxy Energy	SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd.
General Water of China	General Water of China Co., Ltd.
Green Energy	Shanghai Green Energy Co., Ltd.
Group	the Company and its subsidiaries
Hu-Ning Expressway	Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd.
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules
Nanyang Tobacco	Nanyang Brothers Tobacco Company, Limited
Net Business Profit	Net profit excluding net corporate expenses
NR Investment	Shanghai Real Estate North Region Investment Development 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 Jiyun	Shanghai Jiyun Infrastructure Construction Co., Ltd.
Shanghai Pharmaceuticals	Shanghai Pharmaceuticals Holding Co., Ltd. (SSE stock code: 601607; HKSE stock code: 2607)
Shanghai Urban Development	Shanghai Urban Development (Holdings) Co., Ltd.
Shangtou Asset	Shanghai Shangtou Asset Operations Co., Ltd.
Shangtou Real Estate	Shanghai Shangtou Real Estate Investment Co., Ltd.

GLOSSARY OF TERMS

Term used	Brief description
Shenda Property	Shanghai Shenda Property Co., Ltd.
SI Clean Energy	Shanghai Industrial Clean Energy Co., Ltd.
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
SID Quanzhou	Shanghai Industrial Investment Development (Quanzhou) Co., Ltd.
SIHL Scheme	A 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 Dalian	SIIC Environment (Dalian) Co., Ltd.
SIIC Environment Dezhou	SIIC Environment (Dezhou) Waste Water Treatment Co., Ltd.
SIIC Environment Scheme	A share option scheme adopted by SIIC Environment at the extraordinary general meeting held on 27 April 2012
SSE	Shanghai Stock Exchange
Stock Exchange or HKSE	The Stock Exchange of Hong Kong Limited
SUD Commercial	Shanghai Urban Development Commercial Property Development Co., Ltd.
True Victor	True Victor Holdings Limited
Wing Fat Printing	The Wing Fat Printing Company, Limited

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