上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)

# ANNUAL REPORT 2020

*Confront All Challenges,*
*Endeavor for Changes*

直面滄海 奮進求變

# 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
Ms. Zhou Xu Bo

### 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
Ms. Zhou Xu Bo

## COMPANY SECRETARY

Mr. Yee Foo Hei

## QUALIFIED ACCOUNTANT

Mr. Lee Kim Fung, Edward

## AUTHORISED REPRESENTATIVES

Mr. Zhou Jun
Mr. Yee Foo Hei

## REGISTERED OFFICE

26th Floor, Harcourt House,
39 Gloucester Road, Wanchai, Hong Kong
Telephone : (852) 2529 5652
Facsimile : (852) 2529 5067
Email : enquiry@sihl.com.hk

## COMPANY STOCK CODE

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

## COMPANY WEBSITE

www.sihl.com.hk

## AUDITOR

Deloitte Touche Tohmatsu
*Registered Public Interest Entity Auditors*

## ADR DEPOSITORY BANK

The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 358516,
Pittsburgh, PA 15252-8516, USA
Telephone : (1) 201 680 6825
Toll free (USA) : (1) 888 BNY ADRS
Website : www.bnymellon.com/shareowner
Email : shrrelations@bnymellon.com

# INFORMATION FOR SHAREHOLDERS

## SHAREHOLDER ENQUIRIES

### Company Contact Details

Address : 26th Floor, Harcourt House
39 Gloucester Road
Wanchai, Hong Kong
Telephone : (852) 2529 5652
Facsimile : (852) 2529 5067
Email : enquiry@sihl.com.hk

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

*Investor Relations*
Telephone : (852) 2821 3936
Facsimile : (852) 2529 5067
Email : ir@sihl.com.hk

### Share Registrar

*Tricor Secretaries Limited*
Address : 54th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2861 1465

### Our Website

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

## DIVIDEND

Proposed 2020 final dividend of HK52 cents per Share (2019: HK52 cents per Share) will be paid to Shareholders on or about Friday, 18 June 2021 subject to Shareholders' approval.

For the year of 2020, the Company has completed the payment of an interim cash dividend of HK22 cents per Share to Shareholders and the payment of an interim special dividend in the form of distribution in specie to the Qualifying Shareholders on the basis of 1 SIUD Share for every 5 Shares held (2019: the payment in the form of distribution in specie to the qualifying Shareholders on the basis of 1 SIUD Share for every 1 Share held).

## 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 on Friday, 14 May 2021 and Monday, 17 May 2021, 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, Tricor Secretaries Limited by 4:30 p.m. on Thursday, 13 May 2021.

For the purpose of determining Shareholders' entitlement to the final dividend, the register of members of the Company will be closed on Friday, 4 June 2021, on which 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, Tricor Secretaries Limited by 4:30 p.m. on Thursday, 3 June 2021.

## FINANCIAL CALENDAR

| | |
|---|---|
| 2020 interim results announced | 28 August 2020 |
| 2020 final results announced | 30 March 2021 |
| Despatch of 2020 annual report | on or about 19 April 2021 |
| 2021 annual general meeting | 25 May 2021 |
| Ex-dividend date for 2020 final dividend | 2 June 2021 |
| Record date for 2020 final dividend | 4 June 2021 |
| Despatch of notice of 2020 final dividend | on or about 18 June 2021 |

# CHAIRMAN'S STATEMENT

**Shen Xiao Chu**
*Chairman*

I am pleased to report to our Shareholders the Group's results for the year 2020.

During 2020, due to the widespread concern about the severe impact of the COVID epidemic and respective preventive measures adopted by governments all over the world, global economic activity was badly hit. Such control measures included lockdowns and cross-border closures. The situation was further exacerbated by ongoing international trade disputes and volatility of world capital markets. In light of this, the Group has, under the leadership of the Board of Directors and the management team, responded swiftly to the adversity. On one hand, we have fully supported control measures put forward by governments around the world and safeguarded the health and safety conditions of our employees. On the other hand, we have effectively coordinated our resources to ensure the steady operation of our core businesses while minimizing impact and losses arising from the outbreak of the virus. The solid asset base and business structure of the Group's member companies, coupled with quality management and risk-control systems, have effectively contained adversities brought about by the challenges. Despite a decline in its annual results for the year, given that the epidemic prevention-and-control actions taken by the PRC Government have been very successful and resumption of work and production has been stepped up as economic recovery has begun to take effect, the Group's results for the second half of the year rebounded from those of the first half. As such, it is encouraging to note that the Group has been able to maintain overall profitability for the year.

For the year ended 31 December 2020, the Group's total revenue amounted to HK$27,138 million, representing a year-on-year decrease of 16.1%. Net profit decreased year-on-year by 33.8% to HK$2,219 million.

The Board of Directors has recommended a final dividend of HK52 cents per Share for 2020 (2019: HK52 cents per Share). For the interim dividend for the year, the Company has completed the payment of a cash dividend of HK22 cents per Share to the Shareholders and the payment of a special dividend in the form of distribution in specie to Qualifying Shareholders on the basis of 1 SIUD Share for every 5 Shares held (2019: payment of interim dividend in the form of distribution in specie to qualifying Shareholders on the basis of 1 SIUD Share for every 1 Share held).

The Group's three principal businesses have made relentless efforts to overcome the impact of the epidemic in 2020, and managed to maintain steady business growth. The infrastructure facilities business recorded a profit of HK$1,156 million for the year, representing a year-on-year decrease of 34.2%. For water services, the turnover and net profit for SIIC Environment for the year were RMB6,252 million and RMB635 million respectively, up by 4.9% and 5.8% year-on-year. During the year, General Water of China recorded revenue of HK$2,517 million, representing an increase of 14.5% over last year; net profit amounted to HK$274 million, representing a year-on-year increase of 28.8%. During the year, the toll roads business continued to take strict measures to prevent and control the epidemic, while continuing to pursue quality management and improving its service quality and toll collection efficiency. The segment recorded steady business growth, providing a steady cash flow to the Group.

The real estate business recorded a profit of HK$770 million for the year, which was basically the same as last year. SI Urban Development's revenue for 2020 was HK$6,357 million, representing a decrease of 25.9% over the previous year; profit attributable to shareholders was HK$522 million, a year-on-year decrease of 13.1%. SI Development's revenue for the year was RMB8,049 million, a year-on-year decrease of 9.2%; profit attributable to shareholders was RMB818 million, a year-on-year increase of 4.6%.

As affected by the epidemic, the consumer products business recorded a net profit of HK$518 million, representing a year-on-year decrease of 53.0%. The segment remained a significant source of profit and cash flow for the Group.

### Infrastructure segment overcoming impact of epidemic and maintaining steady development

Due to state policies on toll roads for combating the epidemic, our three quality expressways and the Hangzhou Bay Bridge recorded a significant decline in traffic flow and toll revenue during the first half of the year. These policies included the waiving of tolls for toll roads nationwide, economic structural adjustments in surrounding areas, waiver of toll mileage at the entry sections of certain expressways, toll discounts on electronic toll collection (ETC) lanes nationwide, and new settlement standards adopted by the new toll networking systems installed across the country. The toll-free policy implemented during the epidemic ended on 5 May 2020, and the Government has been considering respective compensations for the toll-free and toll mileage adjustment policies.

During the year, considerable effort was made to prevent road congestion and ensure smooth traffic flow. While implementing strict controls to prevent the spread of the epidemic, the series of measures taken to ensure smooth traffic flow included enhanced management standards, improved road maintenance, strengthened monitoring and control of the roads and improved operational efficiency. The assessment of the maintenance and management performance of the expressways nationwide, which takes place every five years, was successfully completed. The road maintenance safeguarding the smooth running of the Third China International Import Expo (CIIE) was also successfully carried out.

As a first-tier environmental protection enterprise, SIIC Environment continued to build its strategic deployment in the Yangtze River Delta and Guangdong-Hong Kong-Macao Greater Bay Area, and consolidate its leading position in water treatment. As of the end of 2020, SIIC Environment had over 200 projects with a total daily capacity reaching 12,890,000 tonnes, and the total planned daily capacity of solid waste treatment was 9,750 tonnes. Recognizing that the Government is committed to promote the water pollution prevention and control and urban and rural sewage collection and treatment in the Yangtze River Basin, SIIC Environment has set its foothold in the region, which represents great potential for its business development. The company will consider seeking more investment opportunities in other water projects in the green demonstration zone of the Yangtze River Delta, to build a better future for China. In addition, SIIC Environment is putting its full efforts into building the renewable energy development center project in Baoshan, Shanghai with the Baowu Group with a view to creating a world-class benchmark project of waste incineration. The project is scheduled to commence operation in 2022 with a daily capacity that may reach 3,800 tonnes, and is expected to become a benchmark waste incineration project in the Yangtse River Delta. The Government has introduced the Yangtze River Protection law and Solid Waste Law, which is expected to give rise to more opportunities for professional environmental protection companies, and SIIC Environment will seize opportunities brought by such policies.

Through Shanghai Galaxy and Galaxy Energy under it, the two companies have 14 photovoltaic power-generation projects nationwide, either fully-owned or through controlling shareholdings, with a total asset scale of 690MW. Approximately 927 million kWh of on-grid electricity was sold during the year, representing a year-on-year increase of 7.2%. In 2020, the Ministry of Finance announced specific arrangements for the application of additional subsidies for renewable-energy electricity tariff, which will enable higher allocation and payment efficiency. The projects of Shanghai Galaxy and Galaxy Energy are prepared to make applications for the next subsidy list. Renewable energy such as photovoltaic power is included in relevant proposal documents of the 14th Five-year Plan and Vision 2035 of many provinces and regions, and local governments have greatly accelerated the progress of green and low-carbon development and energy transformation, which will promote development of the industry. Shanghai Galaxy and Galaxy Energy will also focus on emerging business development and industry layout opportunities arising from reforms and transformation, and actively seize quality investment opportunities. In addition, they will co-operate with leading listed companies in exploring investment opportunities in the biomedical industry.

### Promoting project construction and increasing quality land reserves for the real estate business in an orderly manner

The real estate business was adversely affected by the epidemic and the economic environment during 2020, including delays in the launching of marketing activities and the progress of construction. A lower rental income was also recorded due to concessions and exemptions extended to tenants of the Group's investment properties following calls by the Government. In the second half of 2020, as the epidemic was under effective control in China, many activities have resumed and the market has rebounded throughout the country. The Group has then made significant progress in speeding up project construction and marketing activities for its real estate business.

While implementing epidemic prevention-and-control measures, SI Development combined online and offline project promotion and advertising activities to bolster contract sales and collection of receivables. In addition, the construction of projects has been accelerated to minimize losses, and efforts were made to strengthen the company's property management platforms and further consolidate service standards.

During the year, SI Development won the bid for a land parcel situated at No. 90, North Bund, Hongkou District, Shanghai by way of listing-for-sale for a consideration of approximately RMB3.9 billion. The new site is closely located to the land parcel situated at No. 89, North Bund which is currently under development by the company. The company is planning to develop the two land parcels into a new international cultural and recreational complex at the Bund, which is expected to create synergy and will become a new landmark in the North Bund area.

SI Urban Development made considerable efforts to make up losses brought about by the epidemic and achieved significant progress in the acceleration of project construction. During the year, a joint venture was formed between SI Urban Development and the Aerospace Corporation in which SI Urban Development holds an approximately 32.5% beneficial interest. The new company won a Guilin Road land project in Xuhui District, Shanghai, with a total capital commitment of RMB1,527.50 million. The land is strategically located at a prime location which is expected to be adjacent to the intersection of the existing Metro Line 9 and the future Metro Line 15 in Shanghai. In September 2020, the injection of capital into SIIC Financial Leasing was approved at the special general meeting of SI Urban Development, which represents 20% of the capital of SIIC Financial Leasing upon completion of the capital increase. As an integrated credit provider based in Shanghai, SIIC Financial Leasing is mainly engaged in the business of financing regional governments and its platform companies to fund their projects in local infrastructure. In addition, SI Urban Development expanded the coverage of its comprehensive health business and formed a joint venture with SIIC and Shanghai Pharmaceutical Group, engaging Shanghai No. 9 People's Hospital, a hospital with leading national comprehensive strengths in the medical field, to develop and operate medical beauty business in Shanghai.

### Consumer product business overcoming difficulties and pursuing product innovation and market development

The operating performance of Nanyang Tobacco was adversely affected in 2020 as sea and air transport were disrupted and major sales channels across the world came to a standstill. Against this scenario, Nanyang Tobacco followed through its strategic goals "To strengthen business growth and pursue excellence; and ensure healthy internal operations and external development". The company also continued to consolidate its foundation and sought breakthroughs and innovation in such areas as product development, market and brand operation and overseas marketing. As a centennial enterprise, the company has demonstrated its commitment to social responsibility and strong resilience in seeking development in adversity, getting itself ready for a market recovery.

During the year, Wing Fat Printing took effective epidemic prevention-and-control measures, and has capitalized on "capacity shortage" in mainland China to secure persistent growing orders from clients of the consumer electronics industry, an industry that has benefited greatly from the epidemic. As a result of this, orders covering moulded-fibre and the exquisite box business kept growing. This has laid a strong foundation for the company to achieve steady growth in turnover. The company overcame difficulties and achieved growth against market adversity with performance exceeding its annual business targets. During the year, the company steadily implemented its "1+1+1" development strategy, and brought overall stability to its packaging business and remarkable contributions from moulded-fibre business and its medicine-packaging business is set to significantly boost, thus enhancing the company's overall profitability and market competitiveness. Towards the later stage of the epidemic, the company continued to improve its business and product structures and direct its focus on "intelligent manufacturing" under the development strategy. This has not only helped the company overcome critical challenges such as structural changes in the market brought by the epidemic as well as irrational escalating rise in paper prices and price cut from core clients, but also allowed the company to increase the overall profit margin. Supported by favorable polices offered by local governments during the outbreak of the epidemic, the company has scaled new heights in terms of profitability for the year.

## PROSPECTS

Looking forward to 2021, as China has achieved high recognition for its efforts to combat the epidemic, major activities have resumed and production has been stepped up, resulting in overall economic growth. Nevertheless, uncertainties about the epidemic still remained in Hong Kong and other countries around the world. The impact created by control measures taken by governments worldwide on normal economic and production activities, together with geopolitical factors, international trade disputes, and volatility in interest and exchange rates, will still present severe challenges to the development of the Group's businesses. Against such a backdrop, the Group will take proactive steps to enhance its operating and management efficiency, strengthen risk management and controls, and continue to reform and innovate while maintaining its efforts to curb the epidemic. Resources will be carefully planned and deployed to improve operating results. In addition, the Group will continue to optimize its assets when opportunities arise in order to maximize shareholder value.

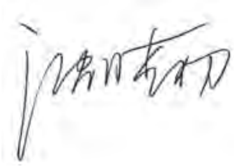
For the infrastructure and environmental protection segments, the water business and solid waste business will continue to seek in-depth development in the environmental protection sector and expand the scale of their investments in an orderly manner. Technological innovation will also be further strengthened and management models refined. The management team will be further streamlined to minimize costs and enhance efficiency and to expedite business development and enhance core competitiveness. The toll road business will continue to reduce costs, increase efficiency, and maintain profitability and steady growth while strictly preventing and controlling the epidemic. Through investments in new business arenas, the Group's investments in the environmental-protection and green-energy segment will become a new source of profit growth for the Group.

The Company's real estate business will focus on key regions and main cities. In the post-epidemic period, the segment will accelerate all aspects of its project construction and operational activities with a view to meeting and exceeding development and sales goals. In addition, the segment will manage overall risk, revitalize its assets and further streamline its asset and financial structures.

Given a rapid recovery in the duty-paid market in Hong Kong due to a decrease in the quantity of duty-free cigarettes in the market, Nanyang Tobacco will actively capture such market share. However, the prospects for the airport duty-free market, ship-tobacco market and overseas markets are rather weak in the short term. The company will actively explore new sales channels that are less affected by the epidemic. It will also seek cooperation with large PRC cigarette enterprises for overseas production and sales, making efforts to enhance its overall competitiveness to broaden the scope of its markets and global presence. The company will continue to make progress in technological innovation, optimise production processes, provide incentives to staff and actively plan for breakthroughs in development.

In 2021, Wing Fat Printing will adhere to its established strategy and policy, and steadily promote the orderly development and structural optimization of each business. The company will embark on bold innovations, keep forging ahead, continue to improve itself in the course of development and enhance its market competitiveness and risk resistance.

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, 30 March 2021

# SIHL AT A GLANCE

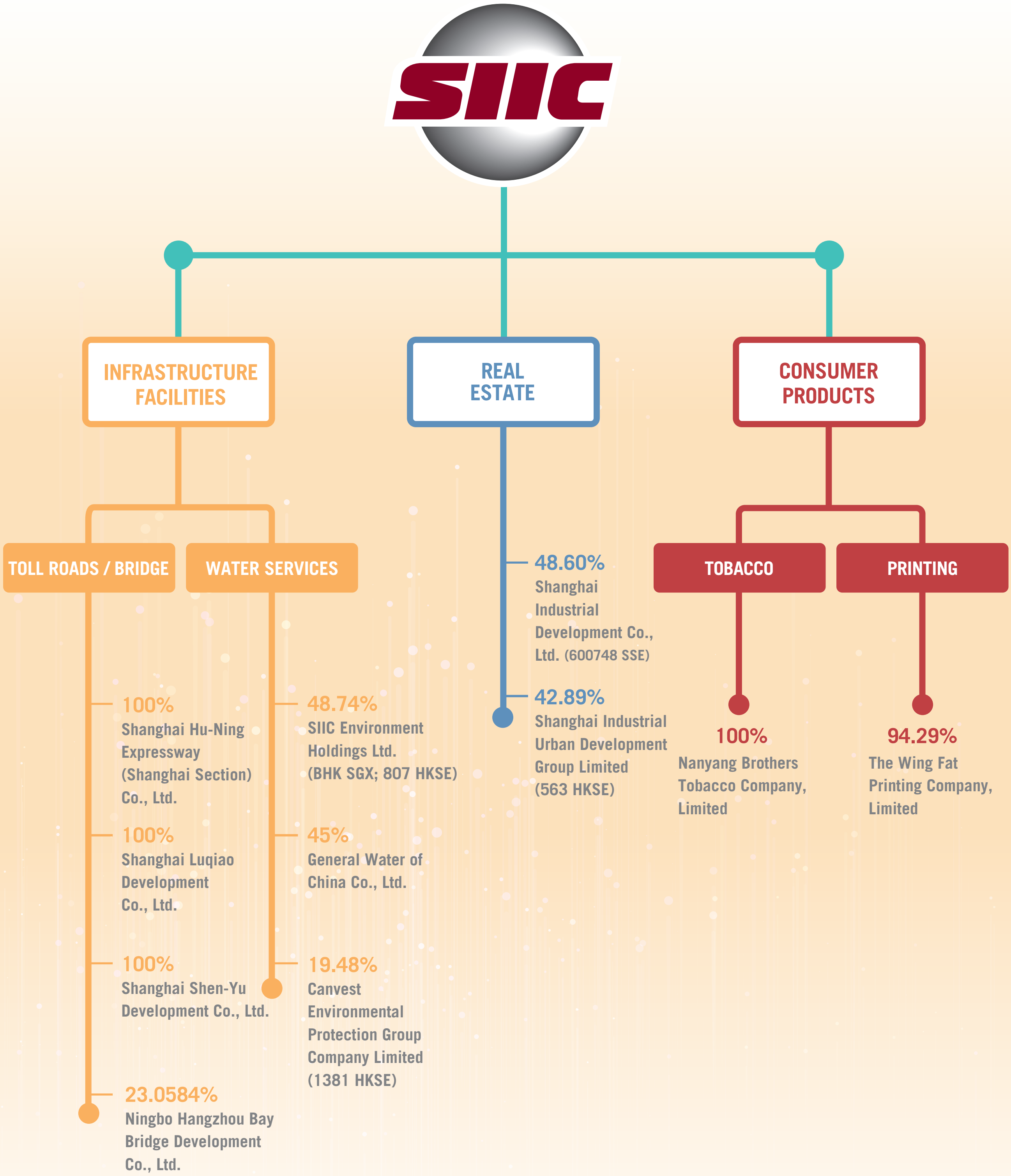
Shanghai Industrial Holdings Limited ("SIHL", HKSE Stock Code: 363) was incorporated in Hong Kong in January 1996, and on 30 May of the same year was listed on the Stock Exchange of Hong Kong. SIHL is a constituent stock of the MSCI China Index and Hang Seng Composite Index, and an eligible stock of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Connect. At the end of 2020, the company's total assets reached HK$194.9 billion and profit attributable to owners of the Company was HK$2.219 billion.

Shanghai Industrial Holdings Limited, is the largest overseas conglomerate enterprise of Shanghai Industrial Investments (Holdings) Company Limited ("SIIC"). 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 20 years' development, SIHL has became a conglomerate company with three core businesses: infrastructure facilities (including toll roads/bridge, and environmental protection related business such as sewage treatment and solid waste treatment business), real estate and consumer products (including Nanyang Tobacco and Wing Fat Printing). SIHL will continue to raise its governance standard in order to create favourable returns and value for shareholders.

# GROUP BUSINESS STRUCTURE

*As at 30 March 2021*

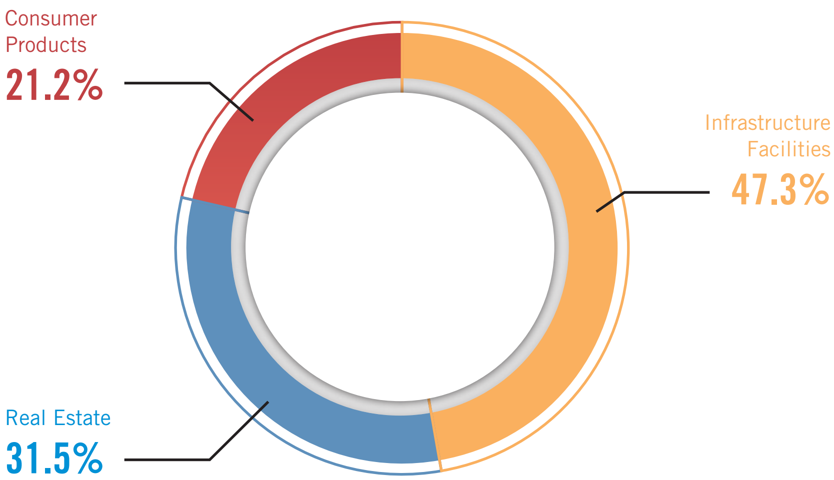


# BUSINESS REVIEW, DISCUSSION AND ANALYSIS

For the year ended 31 December 2020, the Group's audited revenue and profit attributable to shareholders amounted to HK$27,138 million and HK$2,219 million, representing a decline of 16.1% and 33.8% respectively over last year. The reductions were mainly due to the unfavorable business environment brought about by the novel coronavirus (COVID-19) epidemic and the implementation of quarantine and community restrictive measures on the mainland, Hong Kong and throughout the world, which affected the Group's operation and resulted in a drop in overall profit.

To mitigate the impact of the epidemic during the year, the Group has proactively implemented safety measures and modified its operational and production strategies to push forward the execution of its major projects. In addition, efforts were made to reduce costs and improve efficiency through the implementation of prudent financial management, in order to catch up the progress of the Group's business and to safeguard our income.

**Profit contribution from the Group's core business**




## INFRASTRUCTURE FACILITIES

During the year, the infrastructure facilities business recorded a profit of HK$1,156 million, dropping 34.2% over the past year and accounting for 47.3% of the Group's Net Business Profit. The Group continued to refine its strategic plans to strengthen the scale of its infrastructure facilities and environmental-protection businesses through joint investment and co-operation, while continuing to streamline and upgrade existing projects and boosting its profits through different channels. The toll roads/bridge business also faced considerable challenges in operations. To combat the epidemic, our project companies have made considerable efforts to ensure safe and smooth road passage through enhancement of traffic flows, resulting in a gradual recovery of the traffic volume of vehicles.

In October 2020, a 50-50 joint venture was formed between a wholly-owned subsidiary of the Company and an independent third party for the investment of solid waste power generation in China. Through a bidding process, the new joint venture acquired a 30.22% shareholding in SUS Environment at a consideration of RMB2.9988 billion in the same month. The transaction was completed in mid-December. Established in Qingpu, Shanghai in 2008, SUS Environment is a comprehensive urban solid waste disposal service provider which consists of investment, construction and operation. Its principal business includes waste-to-energy build-operate-transfer (BOT) projects and waste-to-energy engineering procurement (EPC) projects. As at the end of 2020, SUS Environment had accumulated some 60 waste-to-energy public-private-partnership (PPP) projects, with a planned daily capacity of over 80,000 tonnes of domestic waste, ranking among the top five in China.

Following a series of share acquisitions in Canvest Environmental since 2017, the Company has now acquired a 19.48% interest in Canvest Environmental, a leading waste incineration power generation enterprise in China. The recent successful acquisition of SUS Environment is expected to further strengthen the Group's position in the waste incineration power generation industry and create strong synergy with its existing infrastructure business. The acquisition is also expected to significantly enhance the Group's core competitiveness and is in line with the strategic planning of the environmental protection business, into which the Group has made considerable investments over the years.

## Toll Roads

The Group's three toll roads and the Hangzhou Bay Bridge recorded a decline in overall traffic flow and toll revenue for the year mainly due to the following factors: (1) The waiver of toll tariffs for vehicles nationwide, resulting in a significant decrease in the number of toll collection days in the first half of the year. The charging of toll tariffs was resumed on 6 May 2020. The Ministry of Transport has been studying the implementation of respective compensation policies; (2) The adjustment of toll mileage for the entry sections of expressways. Our project companies will proactively discuss relevant compensation issues with the Government. (3) A 5% toll discount on electronic toll collection (ETC) lanes nationwide was offered, commencing 1 July 2020, together with an increased proportion of ETC transactions; (4) A new charging system was adopted for the nationwide expressway network on 1 January 2020 and adjustment was made to vehicle classification and charging scales, hence also affecting our toll revenues.

With the resumption of collection of toll tariffs, our toll road project companies have adopted various measures to ensure smooth road passage for vehicles at each toll station. Incentive measures for toll collection, in the form of competitions, were implemented to motivate front-line staff to improve their efficiency in tariff collection. While the new toll system has been operating smoothly, our project companies will continue to optimize the system on a regular basis. Measures will also be taken to combat the epidemic, including the monitoring of anti-epidemic materials and protective equipment at maintenance spots, service areas and toll stations. During the year, the bridge intelligence reform project of Hangzhou Bay Bridge continued to progress smoothly and, in pursuit of service excellence, it has strongly advocated the renovation of the service areas of the southern coast.

The key operating figures of the respective toll roads/bridge for the year 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$265 million | -23.6% | HK$428 million | -37.9% | 34.77 million | -41.2% |
| Hu-Kun Expressway (Shanghai Section) | 100% | HK$203 million | -47.0% | HK$643 million | -38.3% | 63.29 million | +6.9% |
| Hu-Yu Expressway (Shanghai Section) | 100% | HK$101 million | -52.5% | HK$419 million | -30.6% | 35.73 million | -17.6% |
| Hangzhou Bay Bridge | 23.0584% | HK$93 million | -36.9% | HK$1,655 million | -12.7% | 17.27 million | +17.1% |
| **Total** | | **HK$662 million** | **-39.3%** | **HK$3,145 million** | **-25.6%** | **151.06 million** | **-14.4%** |

While overcoming a variety of difficulties during the year, our toll road project companies have successfully completed the assessment of the maintenance and management performance of the expressways nationwide, which takes place every five years. The companies have also safeguarded the road conditions of the third China International Impact Expo, including the timely completion of the improvement works on the roads with high quality. Jing-Hu Expressway (Shanghai Section) is the only model example in Shanghai (上海市精品示範路) that has participated in the national assessment program. During the year, Hu-Kun Expressway (Shanghai Section) received an assessment review by the Shanghai Work Safety Association and the title of A Modelled Enterprise for Safety Culture in Shanghai (上海市安全文化建設示範企業) was retained.

In April 2020, the Company announced that its wholly-owned subsidiary, Hu-Ning Expressway, transferred the entire 23.9719% equity interests held by it in Wufangzhai to Shanghai Galaxy for a consideration of RMB419,508,055. The transaction was completed in May. Hu-Ning Expressway will indirectly hold such equity interest through its 45% interest in Shanghai Galaxy. In view of the current market conditions, the transaction is expected to allow Hu-Ning Expressway to gain more liquid funds and to achieve a reasonable return on its investment, thereby allowing it to concentrate its resources on its core business of toll roads, and replenish its working capital for the implementation of strategic transformation plans.

## Water Services

Reaching a daily water treatment capacity of 12,890,000 tonnes, SIIC Environment will push forward its strategic deployment in the Yangtze River Delta region and Guangdong-Hong Kong-Macau Greater Bay Area, which is closely in line with the national strategic plans, and continue to consolidate its position as the leading enterprise in water treatment in China and a first-tier enterprise in environmental protection. General Water of China has during the year made significant achievements in terms of increasing output, promoting efficiency, enhancing market exploration and accelerating the pace of project development amid its efforts to combat the epidemic.

### *SIIC Environment*

In 2020, SIIC Environment recorded revenue of RMB6,252 million, representing a year-on-year increase of 4.9% and profit attributable to shareholders of RMB635 million, representing a year-on-year increase of 5.8%. Operating and maintenance income and financial income from service concession arrangements together achieved a year-on-year increase of 12.7%, mainly attributable to the rise in both sewage treatment volume and treatment tariffs. Construction revenue recorded a year-on-year decrease of 3.7% due to delays in construction projects caused by the epidemic and the flood season, but construction revenue significantly increased in the fourth quarter.

With the effective control of the epidemic in China, the construction of, and bidding activities for, new municipal environmental protection projects at all levels of the Government gradually resumed. During the year, SIIC Environment has been pushing ahead with the development of its projects and as at the year end of 2020 acquired 16 new sewage-treatment projects with a total planned daily capacity of 401,300 tonnes along with 24 upgrade and expansion projects with a total planned daily capacity of 1,547,500 tonnes. In addition, six sewage treatment projects were put into commercial operation with a total planned daily capacity of 190,000 tonnes. The construction of 12 upgrade and expansion projects and projects under construction with a total planned daily capacity of 530,000 tonnes was also completed and went into commercial operation. For solid waste projects, SIIC Environment has acquired an expansion project and a relocation project with a total planned daily capacity of 2,000 tonnes. In 2020, sewage water volume treatment grew by 5.3% to 2,400,000,000 tonnes; sewage water tariffs increased by 19.4% year-on-year and water-treatment volume under O&M projects increased by 5.8% to 140,000,000 tonnes.

The central Government's endeavor to prevent and control water pollution in the Yangtze River Delta and to enhance the sewage-treatment collection and processing capability of urban and rural areas has brought about enormous development potential in the area. With its early presence in the Yangtze River Delta region, SIIC Environment has secured strategic benchmark projects such as the sewage treatment plant project and artificial wetland O&M project in Zhejiang as well as the Huishan project in Wuxi and the Pinghu project in Zhejiang. The new national laws on solid waste implemented during the year are expected to bring about more opportunities for professional environmental protection enterprises. Capitalizing on such opportunities arising from national policies, SIIC Environment has focused its efforts to construct the renewable energy center project in Baoshan as a solid waste benchmark project in the Yangtze River Delta region together with the Baowu Group. The project is expected to commence operation in 2022 with a daily capacity reaching 3,800 tonnes. SIIC Environment will also seek to acquire other water projects in the green demonstration area in the Yangtze River Delta region to build a better future for China.

*General Water of China*

Despite the impact of the epidemic during the year, General Water of China completed all its operational targets, driven by its relentless efforts in safety operations as well as a determination to streamline its corporate management and to accelerate the pace of technological innovation. During the year, the company recorded revenue of HK$2,517 million, representing a year-on-year increase of 14.5%. Net profit amounted to HK$274 million, representing an increase of 28.8% over last year. As at the end of 2020, the company operated a total of 34 water-supply plants and 27 sewage treatment plants with a combined daily capacity of 6,927,000 tonnes, of which the daily capacity of water supply is 4,429,500 tonnes and the daily capacity of sewage treatment is 2,497,500 tonnes. The company has two reservoirs with a total storage capacity of 182,320,000 tonnes and a pipe network of 6,248 kilometers. General Water of China has been named one of the Top 10 Most Influential Enterprises in China's Water Industry for the 17th consecutive year, and has once again been ranked in the top three companies in this area.

In April 2020, General Water of China signed a contract with Bengbu Housing and Urban-Rural Development Bureau for the construction of the Bengbu reclaimed water project. The project represents an important step in fulfilling its responsibility as the main platform for environmental protection and pollution control of the Yangtze River. The total investment in the project is RMB278 million, with a planned daily capacity of 160,000 tonnes, (the current daily capacity was 90,000 tonnes). By the end of June, General Water of China's Guiyi reclaimed-water plant in Guiyang (a project which adopts a PPP model) was put into trial operation with a total planned daily capacity of 50,000 tonnes and covering a service area of 22,060 square meters. The project has become the first ultra-deep pit-buried reclaimed water plant in the PRC.

In May, the company's Changfen water plant was completed and put into trial operation, benefiting a population of 180,000. The current daily capacity and long-term daily capacity of the project are 20,000 tonnes and 40,000 tonnes respectively. In the same month, part of the Xiangtan No. 3 water-plant project, involving upgrading, alteration and expansion, was also officially put into operation with a daily treatment capacity reaching 300,000 tonnes, which will greatly alleviate insufficient water supply during the hot season to supply water in the Hedong district. In July, affected by the rainy season, the water level of the reservoir in Tiger Lake approached its flood limit and the water gate was opened on two occasions in line with the policy of timely implementation of stringent flood-prevention measures to ensure the safety of the city's residents.

Overview of the geographic distribution of the water development projects under the Group as at 31 December 2020 are as follows:


Note: Please refer to the 2020 annual report of SIIC Environment for an overview of SIIC Environment's water development projects as at 31 December 2020.

## Anhui

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 5 | 130,000 | 3 | 500,000 |
| 1 | 25,000 | 3 | 1,030,000 |
| | | 1 | 160,000 |

## Fujian

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 3 | 50,000 | 1 | 1,202,500 |
| | | 1 | 1,565,000 |

## Guangdong

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 16 | 1,420,000 | 1 | 150,000 |
| 1 | 50,000 | | |

## Guangxi

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 4 | 300,000 |

## Heilongjiang

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 51 | 3,856,300 | 1 | 20,000 |
| 4 | 610,000 | 1 | 305,000 |
| 4 | 125,000 | | |
| 6 | 1,330 | | |

## Henan

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 7 | 240,000 | 3 | 600 |
| 2 | 40,000 | | |

## Hubei

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 11 | 1,050,000 | 1 | 953,000 |
| 5 | 430,000 | | |
| 1 | 325 | | |

## Hunan

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 7 | 260,000 | 1 | 200,000 |
| 4 | 520,000 | 1 | 485,000 |

## Inner Mongolia

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 2 | 43,500 |

## Jiangsu

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 12 | 383,000 |
| 2 | 6,000 |

## Jiangxi

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 11 | 181,500 |

## Jilin

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 6 | 92,500 |

## Liaoning

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 9 | 385,000 |

## Ningxia Hui Autonomous Region

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 4 | 250,000 |
| 1 | 50,000 |

## Shandong

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 11 | 610,000 | 1 | 38,500 |
| 4 | 420,000 | 3 | 1,800 |

## Shanxi

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 1 | 55,000 |

## Shanghai

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 8 | 440,000 |
| 2 | 4,850 |

## Sichuan

| Total no. of projects | Daily capacity (tonnes) |
|---|---|
| 2 | 2,000 |

## Zhejiang

| Total no. of projects | Daily capacity (tonnes) | Total no. of projects | Daily capacity (tonnes) |
|---|---|---|---|
| 17 | 833,000 | 4 | 475,000 |
| 1 | 1,100 | 2 | 219,500 |

## NEW BUSINESS ARENA

As at the end of 2020, the photovoltaic assets capacity of Shanghai Galaxy and Galaxy Energy, its subsidiary, reached 690MW. The total amount of on-grid electricity sold from its 14 photovoltaic power stations was approximately 927 million kWh, representing an increase of 7.2% over last year. During the year, Anda Zhongcheng photovoltaic power station at Heilongjiang province was acquired with a newly-added asset scale of 100 kWh.

In 2020, the National Ministry of Finance promulgated detailed criteria for applying additional subsidies on tariffs for renewable-energy projects, which will greatly enhance the efficiency of granting subsidies. The projects of Shanghai Galaxy and Galaxy Energy are well prepared for the application for subsidies in the next round. Currently, renewable energy, such as photovoltaic, has been listed in the "Fourteenth Five-year Plan" in various provinces and regions and set as a vision for 2035 in various proposal documents. Local governments have expedited the progress on the development of a low-carbon green economy and the transformation of energy, and this has greatly promoted the development of the photovoltaic industry. Shanghai Galaxy and Galaxy Energy will pay close attention to the environment of emerging industries amid the reform and the opportunities arising from the industry layout, to grasp the prime investment opportunities. They will also explore investment opportunities in biopharmaceuticals together with leading listed companies.

## REAL ESTATE

In 2020, the real estate business recorded a profit of HK$770 million, in line with that of last year, and accounted for 31.5% of the Group's Net Business Profit. The moderate decline was mainly due to restrictions in marketing activities and delays in the delivery of properties as a result of the epidemic and the reduction in rental income. With the Government's effective control of the epidemic over the country, different provinces and cities have resumed commercial and business activities. The Group's real estate business has accelerated the pace of its construction projects and achieved significant progress.

*SI Development*

During the year, SI Development recorded revenue of RMB8,049 million, representing a year-on-year decrease of 9.2%. Net profit was RMB818 million, representing a year-on-year increase of 4.6%, mainly attributable to the company's booked income from projects delivered during the year. In view of macro-economic pressure and complicated issues arising in the industry in 2020, SI Development utilised multiple financing channels and adopted versatile marketing strategies in the development of its business, hence maintaining stable results for the company.

In terms of property sales, SI Development met its annual target ahead of schedule. The promotion and marketing of its projects were made through online and offline channels and a variety of marketing initiatives. In addition, considerable efforts were made to speed up the progress of contract signing and in the collection of receivables. Favorable contract sales were recorded in a number of property projects, including such projects as Shanghai Bay (Phase 4) in Qingpu, Shanghai, Territory Shanghai in Jing'an, Shanghai, Era of Elites in Baoshan, Shanghai, Sea Palace in Quanzhou, SIIC Tianlan Bay in Huzhou and SIIC Yungjing Bay in Huzhou. Contract sales of real estate projects for the year reached RMB5,000 million, covering an area of approximately 228,800 square meters. Property sales booked during the year amounted to HK$4,834 million, including the delivery of a gross floor area of properties of approximately 260,000 square meters, mainly comprised of Hi-Shanghai in Hangzhou, Shanghai Bay (Phase 4) in Qingpu, Shanghai, SIIC Tianlan Bay in Huzhou, A New Era in the City in Jiading, Shanghai and Sea Palace in Quanzhou. Rental income for the year was approximately HK$381 million.

During the year, to compensate for delays in construction, SI Development stepped up the pace of its construction projects to make up for time loss. A total of nine projects were under construction, covering a total gross floor area of about 192 square meters. Despite pressures arising from the epidemic and an unfavorable market environment, the company continued to maintain progress in its property investment operations. During the early period of resumption of work and production, the company reduced the rent for small and medium enterprises pursuant to the relevant requirements of the municipal government, benefitting a total of 287 tenants and covering a rental area of about 196,000 square meters. With the preferential measures offered for ensuring contract renewal of existing tenants and the smooth transition of new tenants, the company maintained an occupancy rate of more than 90% for the year. During the year, SI Development acquired 23 additional projects and renewed tenancy for 39 of its projects. The newly-added area amounted to 1,380,000 square meters and the area under management reached 26,650,000 square meters.

In November 2020, a wholly-owned subsidiary of SI Development established Sichuan Shanghai Innovation Fund with SIIC and other cornerstone investors, with a total capital contribution of RMB600 million, of which RMB100 million was contributed by SI Development, for investment in the artificial intelligence industry. The Fund will actively participate in the construction of the Shanghai Scientific Innovation Center and integrated developments in the Yangtze River Delta region, synergizing the resources between new technologies and business-development efforts. The project is expected to provide prime investment opportunities for the company's diversified investment portfolio and generate stable revenue. Supported by SI Development's strategic investment planning in emerging business, the project will lay a solid foundation for the further exploration of the potentials in artificial intelligence.

Taking an active part in the acquisition of real-estate projects, SI Development in December 2020 won a bid for the land-use rights of the land parcel situated at No. 90, North Bund, Hongkou District, Shanghai with a total site area of 12,725 square meters through listing-for-sale at a consideration of RMB3,893 million for office, commercial and recreation and sports uses. Located in close proximity to the land parcel situated at No. 89, North Bund, which is currently under development and construction by SI Development, the newly acquired project created synergy between the two developments. The two sites will be developed into a new cultural and recreation zone of Shanghai Bund with global exposure, and the company is striving to make it a new landmark in the North Bund area.

Looking forward, SI Development will focus its development in critical regions and penetrate into cities with competitive edges in the development of its projects. In addition, the company will focus on three core regions for future development. These will include: Shanghai and Yangtze River Delta region which is characterized by the signature architectural complex at North Bund, Hongkou; the Bohai Bay area, which is led by the Qingdao International Beer City; and the Chengdu-Chongqing region, which focuses on mid- to high-end residential housing and ancillary commercial projects. Such an initiative will expand the potential for development and the brand influence.

*SI Urban Development*

SI Urban Development recorded revenue of HK$6,357 million for 2020, representing a decrease of 25.9% over last year. Profit attributable to shareholders for the year amounted to HK$522 million, representing a year-on-year decrease of 13.1%. Property sales booked during the year amounted to RMB5,485 million. Properties delivered mainly included Urban Cradle in Shanghai, Contemporary Splendour Villa (Courtyard Villa) in Shanghai and Contemporary Art Villa (Jade Villa) in Shanghai, with a gross floor area of approximately 167,400 square meters. Rental income for the year was approximately HK$663 million. Contract sales amounted to RMB7,610 million, representing a gross floor area of approximately 152,000 square meters, which mainly included Contemporary Splendour Villa (Courtyard Villa) in Shanghai, West Diaoyutai • Emperor Seal in Beijing, Originally in Xi'an and Urban Cradle in Shanghai. SI Urban Development had a total of 14 projects under construction with a gross floor area of approximately 3,097,000 square meters.

In conjunction with its 50%-owned joint venture and Aerospace Corporation, SI Urban Development took part in the bidding of the Guilin Road land project located in the southwest of Xuhui District, Shanghai in January 2020, with a total capital commitment of RMB1,527.50 million, in which SI Urban Development holds approximately 32.5% beneficial interest. The transaction was completed in May 2020. With a prime location adjacent to the intersection of the existing metro line 9 and the future metro line 15 in Shanghai, the project is expected to support future rental returns, and its property value is expected to be further enhanced upon completion.

In the same month, SI Urban Development announced that it would inject RMB407,942,343 in cash into SIIC Financial Leasing for the subscription of 20% of the company's capital upon completion of the capital increase. The equity of the company's existing shareholder, Shanghai Galaxy, will be diluted to 28.95% accordingly following the completion of the capital increase. The remaining shareholders are independent third parties. As an integrated credit provider based in Shanghai, SIIC Financial Leasing is mainly engaged in the business of financing local governments and its platform companies to fund their projects in local infrastructure, water supply and construction of rail transportation. The transaction was approved by independent shareholders at the special general meeting held in September 2020. With this project, SI Urban Development is expected to further deepen the integration of finance into business and create synergy between the two areas.

During the year, SI Urban Development expanded the coverage of its comprehensive healthcare business and formed a joint venture with SIIC and Shanghai Pharmaceutical Group in October with a total investment of RMB150 million to engage in the development and operation of a medical beauty institution in Shanghai, China. SI Urban Development owns a shareholding of 19% in the joint venture, which will engage Shanghai No. 9 People's Hospital, a market-leading tertiary public hospital in the PRC with leading national comprehensive strengths in the medical field, to provide technical management consulting services and support in relation to hospital management and medical affairs. The project offers SI Urban Development opportunities for long-term strategic development in the comprehensive health sector.

In December 2020, SI Urban Development entered into a cooperation agreement with an independent third party to acquire the land use right of the Wuhan Site located at the Yangluo Economic Development Zone in the district of Xinzhou in Wuhan of the Hubei Province, the PRC. Acquired for a consideration of RMB1,329 million, the site which consists of a total site area of approximately 258,000 square metres and an estimated gross floor area of approximately of 440,000 square metres, will be used for scientific research as well as commercial and residential purposes. The Xinzhou district represents a provincial key development zone, and the acquisition is in line with the business development strategy and planning of SI Urban Development which holds a 49% interest in the project. Apart from this, SI Urban Development won in the same month the bid for the land use right of Plot No. 3, Tianjin Polytechnic University, Hedong District in Tianjin, the PRC for a land premium payment of RMB2,660 million. With a total site area of approximately 42,145 square metres, the land parcel is planned to be developed into approximately 115,800 square meters of residential development. Located in close proximity to metro line No. 5 in the Hedong District, Tianjin, the site is supplemented by comprehensive auxiliary facilities, and is expected to be developed into a new landmark development project which is in line with SI Urban Development's strategy of developing residential properties in key metropolitan areas.

Set out below is a summary of the major property development projects of the Group as at 31 December 2020:

*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 | 613 | 32,542 | Completed |
| 2 | Chenghua District, Chengdu | Hi-Shanghai | Residential and commercial | 100% | 61,506 | 254,885 | 4,045 | 198,651 | Completed |
| 3 | Beibei District, Chongqing | Hi-Shanghai | Residential and commercial | 100% | 30,845 | 74,935 | 952 | 58,886 | Completed |
| 4 | Yuhang District, Hangzhou | Hi-Shanghai (Phase I) | Residential and commercial | 85% | 74,864 | 230,484 | 1,684 | 149,520 | Completed |
| 5 | Yuhang District, Hangzhou | Hi-Shanghai (Phase II) | Residential and commercial | 85% | 59,640 | 198,203 | 8,175 | 131,046 | Completed |
| 6 | Wuxing District, Huzhou | Hurun Commercial Plaza | Commercial | 100% | 13,661 | 27,322 | – | – | 2021 |
| 7 | Wuxing District, Huzhou | SIIC Tianlan Bay | Residential and commercial | 100% | 115,647 | 193,292 | 14,249 | 104,043 | Completed |
| 8 | Wuxing District, Huzhou | SIIC Yungjing Bay | Residential | 100% | 68,471 | 207,906 | 19,421 | 55,972 | Completed |
| 9 | Shilaoren National Tourist Resort, Qingdao | International Beer City | Composite | 100% | 227,675 | 806,339 | – | 327,831 | 2014 to 2022, in phases |
| 10 | Fengze District, Quanzhou | Sea Palace | Residential and commercial | 100% | 170,133 | 1,064,099 | 100,842 | 225,603 | 2017 to 2021, in phases |
| 11 | Baoshan District, Shanghai | Era of Elites | Residential | 100% | 26,600 | 73,798 | 14,949 | 14,949 | 2022 |
| 12 | Baoshan District, Shanghai | Unit BSPO-0104, Lot 0423-01, Gucun Large Residential Community | Residential | 100% | 32,130 | 86,692 | – | – | 2022 |
| 13 | Hongkou District, Shanghai | North Bund Lot No. 89 Project | Commercial and office | 90% | 23,037 | 230,568 | – | – | 2021 |
| 14 | Jiading District, Shanghai | Sea Garden | Residential and commercial | 100% | 58,949 | 163,351 | 5249 | 82,333 | Completed |
| 15 | Jiading District, Shanghai | Essence of Shanghai | Residential and commercial | 100% | 32,991 | 75,559 | 99 | 39,794 | Completed |
| 16 | Jingan District, Shanghai | Territory Shanghai | Residential | 100% | 32,512 | 114,737 | 4,987 | 81,028 | Completed |
| 17 | Qingpu District, Shanghai | Belle Rive | Villa | 51% | 315,073 | 59,577 | – | 25,985 | Completed |
| 18 | Qingpu District, Shanghai | Shanghai Bay | Residential | 51% | 808,572 | 631,199 | 53,059 | 263,147 | 2011 to 2021, in phases |
| 19 | Qingpu District, Shanghai | He Villa/Sea County | Residential | 51% | 162,708 | 121,683 | 828 | 85,095 | Completed |
| 20 | Wuzhong District, Suzhou | Sudi Lot 2017-WG-10 | Residential | 100% | 40,817 | 126,881 | – | – | 2021 |
| **Sub-total** | | | | | **2,361,299** | **4,812,076** | | | |

| | 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 | Youngman Point | Residential and commercial | 100% | 112,700 | 348,664 | – | 258,814 | 2007 to 2021, in phases |
| 2 | Haidian District, Beijing | West Diaoyutai • Emperor Seal | Residential | 90% | 42,541 | 250,930 | 13,239 | 201,266 | 2007 to 2021, in phases |
| 3 | Jiulongpo District, Chongqing | Top City | Residential, commercial and office | 100% | 120,014 | 786,233 | 329 | 376,424 | Completed |
| 4 | Huaqiao Town, Kunshan | Yoooou.net | Commercial and office | 30.7% | 34,223 | 129,498 | – | 63,021 | Completed |
| 5 | Baoshan District, Shanghai | Shangtou Baoxu | Residential | 71.3% | 118,880 | 306,167 | 11,868 | 110,117 | 2021 |
| 6 | Minhang District, Shanghai | Urban Cradle | Residential and commercial | 53.1% | 943,000 | 1,226,298 | 11,573 | 824,044 | 2007 to 2022, in phases |
| 7 | Minhang District, Shanghai | Shanghai Jing City | Residential and commercial | 59% | 301,908 | 772,885 | – | 560,409 | Completed |
| 8 | Minhang District, Shanghai | TODTOWN | Residential, commercial, hotel, office and apartment office | 20.7% | 117,825 | 605,000 | – | 56,205 | 2020 to 2024, in phases |
| 9 | Minhang District, Shanghai | Contemporary Art Villa (Jade Villa) | Residential | 100% | 116,308 | 78,090 | 8,168 | 69,851 | 2018 to 2022, in phases |
| 10 | Minhang District, Shanghai | Contemporary Splendour Villa (Courtyard Villa) | Residential | 100% | 120,512 | 191,636 | 47,122 | 50,262 | Completed |
| 11 | Minhang District, Shanghai | Shangtou Xinhong | Residential and commercial | 90% | 89,432 | 289,271 | – | – | 2021 to 2023, in phases |
| 12 | Minhang District, Shanghai | Chenghang Project | Commercial and office | 80% | 20,572 | 60,195 | – | – | 2021 |
| 13 | Minhang District, Shanghai | Shenzhicheng project | Rental housing | 29.5% | 47,435 | 128,075 | – | – | 2022 |
| 14 | Minhang District, Shanghai | Chenglong project | Rental housing | 59% | 47,383 | 118,458 | – | – | 2023 |
| 15 | Songjiang District, Shanghai | Shanghai Youth City | Commercial and office | 100% | 57,944 | 212,130 | – | 139,840 | Completed |
| 16 | Xuhui District, Shanghai | Jingxiang Project | Rental housing | 59% | 17,161 | 48,050 | – | – | 2022 |
| 17 | Xuhui District, Shanghai | Guilin Road Aerospace project | Scientific research and design and residential leasing | 21.2% | 91,160 | 590,165 | – | – | 2021 to 2026, in phases |
| 18 | Xuhui Binjiang, Shanghai | Binjiang U Center | Office and commercial | 35.4% | 77,371 | 525,888 | – | – | 2020 to 2023, in phases |
| 19 | Heping District, Shenyang | Shenyang U Center | Commercial, office and serviced apartment | 100% | 22,651 | 228,768 | – | 71,660 | Completed |

| | 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 |
|---|---|---|---|---|---|---|---|---|---|
| 20 | Futian District, Shenzhen | China Phoenix Tower | Residential, commercial and office | 91% | 11,038 | 106,190 | – | 78,343 | Completed |
| 21 | Nankai District, Tianjian | Laochengxiang | Residential, commercial and office | 100% | 244,252 | 752,883 | 259 | 582,737 | Completed |
| 22 | Binghu District, Wuxi | Urban Development International Center | Commercial, hotel, office and serviced apartment | 59% | 24,041 | 193,368 | – | 41,900 | Completed |
| 23 | Chanba Ecotope, Xi'an | Originally | Residential, commercial and hotel | 71.5% | 2,101,967 | 3,899,867 | 59,493 | 2,502,296 | 2008 to 2023, in phases |
| 24 | Zhifu District, Yantai | Yantai Project | Residential, commercial and office | 100% | 77,681 | 159,100 | – | – | 2022 to 2024, in phases |
| **Sub-total** | | | | | **4,957,999** | **12,007,809** | | | |

| | 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 | – | 25,985 | Completed |
| 2 | Qingpu District, Shanghai | Shanghai Bay | Residential | 49% | 808,572 | 631,199 | 53,059 | 263,147 | 2011 to 2021, in phases |
| 3 | Qingpu District, Shanghai | He Villa/Sea County | Residential | 49% | 162,708 | 121,683 | 828 | 85,095 | Completed |
| **Sub-total** | | | | | **1,286,353**[1] | **812,459**[1] | | | |
| **Total** | | | | | **8,605,651**[1] | **17,632,344**[1] | | | |

### *Major Future Development Projects*

| | City | Projects of SI Development | Project type | Interest attributable to SI Development | Approximate site area (square meters) | Planned total GFA (square meters) | Expected date of completion |
|---|---|---|---|---|---|---|---|
| 1 | Hongkou District, Shanghai | North Bund Lot No. 90 | Commercial and office | 100% | 12,725 | 110,932 | 2024 |
| 2 | Qingpu District, Shanghai | Zhujiajiao Lot D2 | Residential and commercial | 51% | 349,168 | 177,954 | Under planning |
| 3 | Qingpu District, Shanghai | Lot 04-33, Guanglai Road North, Hongqiao West | Rental housing | 49% | 32,521 | 45,639 | 2022 |
| **Sub-total** | | | | | **394,414** | **334,525** | |

| | City | Projects of the Company | Project type | Interest attributable to the Company | Approximate site area (square meters) | Planned total GFA (square meters) | Expected date of completion |
|---|---|---|---|---|---|---|---|
| 1 | Qingpu District, Shanghai | Zhujiajiao Lot D2 | Residential and commercial | 49% | 349,168 | 174,584 | Under planning |
| 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** | | | | | **1,495,389**[1] | **885,013**[1] | |

### *Major Investment Properties*

| | City | Projects of SI Development | Project type | Interest attributable to SI Development | Total GPA for investment properties (square meters) |
|---|---|---|---|---|---|
| 1 | Wenjiang District, Chengdu | Orchard Forest | Commercial | 100% | 769 |
| 2 | Qingdao Economic Development Zone | Dali Plaza | Commercial | 76% | 21,495 |
| 3 | Laoshan District, Qingdao | Shanghai Industrial Investment Centre | Office | 100% | 24,875 |
| 4 | Fengze District, Quanzhou | Sea Palace (Phase I of Linghai Yuan) | Commercial | 100% | 1,835 |
| 5 | Changning District, Shanghai | Super Ocean Finance Center | Office | 100% | 2,321 |
| 6 | Changning District, Shanghai | United 88 | Commercial<br>Office<br>Parking lot | 100%<br>100%<br>100% | 38,923<br>50,560<br>28,457 |
| 7 | Hongkou District, Shanghai | Gao Yang Commercial Centre | Office | 100% | 22,187 |
| 8 | Hongkou District, Shanghai | Gao Yang Hotel | Office | 100% | 3,313 |
| 9 | Huangpu District, Shanghai | Golden Bell Plaza | Office<br>Office<br>Carpark | 100%<br>90%<br>90% | 9,801<br>40,186<br>4,870 |
| 10 | Huangpu District, Shanghai | Huangpu Estate | Commercial | 100% | 20,918 |
| 11 | Huangpu District, Shanghai | No. 108 Haichao Road | Commercial | 100% | 474 |
| 12 | Jingan District, Shanghai | Essence of Shanghai | Commercial | 100% | 37,998 |
| 13 | Jingan District, Shanghai | Territory Shanghai | Commercial | 100% | 1,559 |
| 14 | Pudong New District, Shanghai | No. 1111 Shangchuan Road | Industrial | 100% | 40,208 |
| 15 | Pudong New District, Shanghai | Huashen Building | Office | 100% | 344 |
| 16 | Xuhui District, Shanghai | Shanghai Industrial Investment Building | Office<br>Office<br>Carpark | 100%<br>74%<br>74% | 10,089<br>14,130<br>8,692 |
| 17 | Xuhui District, Shanghai | Yonglong Building | Office | 100% | 798 |
| 18 | Yangpu District, Shanghai | Hi-Shanghai | Commercial<br>Parking Lot | 100%<br>100% | 22,027<br>22,000 |
| 19 | Zhabei District, Shanghai | No. 235 Zhongshan Road North (portion) | Office | 100% | 1,434 |
| 20 | Shaoxing Paojiang New Zone | Rhine Town | Commercial | 100% | 5,961 |
| 21 | Xiqing District, Tianjin | International Chinese City | Commercial | 100% | 26,479 |
| **Sub-total** | | | | | **462,703** |

| | City | Projects of SI Urban Development | Project type | Interest attributable to SI Urban Development | Total GPA 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% | 285,264[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 building | 59% | 45,239 |
| 6 | Xuhui District, Shanghai | YOYO Tower | Commercial | 59% | 13,839 |
| 7 | Xuhui District, Shanghai | Plot No. 1 of Binjiang U Center | Office | 35.4% | 25,845[2] |
| 8 | Futian District, Shenzhen | China Phoenix Tower | Office | 91% | 1,048[2] |
| 9 | Shenyang | Shenyang•U Centre | Commercial | 100% | 50,778[2] |
| 10 | Chanba Ecotope, Xi'an | Originally | Commercial | 71.5% | 22,828 |
| 11 | Shanghai, Tianjin and Kunshan | Others | Commercial, office building and parking lot | 59% | 93,196 |
| **Sub-total** | | | | | **858,805** |
| **Total** | | | | | **1,321,508** |

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

## CONSUMER PRODUCTS

For the year of 2020, the Group's consumer-products business made a profit of HK$518 million, representing a decrease of 53.0% over the previous year and accounting for approximately 21.2% of the Group's Net Business Profit. The production and operations of Nanyang Tobacco were affected by the global spread of COVID-19 as business transport and shipping became almost stagnant. During the year, Nanyang Tobacco focused its efforts on the expansion of slim cigarette production, composite filters and new tobacco products. In terms of marketing and branding, the company endeavored to seek breakthroughs, while achieving significant progress in overseas production and sales cooperation projects. The company will continue to strengthen its business and seek innovation to prepare itself for the future market recovery. Wing Fat Printing overcame various challenges during the year and achieved growth in the adverse market environment and has steadily promoted the "1+1+1" strategy with its annual mission completed well beyond target, with profitability and industry competitiveness much enhanced. The packaging business recorded stable profit; the moulded-fibre business has made a remarkable contribution, and the medicine-packaging business is set to gear up.

### Tobacco

The turnover and profit after tax of Nanyang Tobacco for the year were HK$1,868 million and HK$361 million respectively, representing a decline of 44.0% and 63.0% respectively over the previous year. This is mainly attributable to the COVID-19 epidemic outbreak and customs-closure measures around the world, which led to a significant decline in the sales of cigarettes at duty-free shops and a respective drop in exports and ship-tobacco business. Firmly adhering to its business goals, Nanyang Tobacco has made considerable efforts to consolidate its competitive edges and to seek breakthroughs amid the adverse environment caused by the epidemic. The company's goals are "To strengthen business growth and pursue excellence; and ensure healthy internal operations and external development". As a centennial enterprise, the company has demonstrated its commitment to social responsibility and strong resilience in seeking development in adversity.

To stay abreast of rapid innovations in the new tobacco market, Nanyang Tobacco has introduced higher capabilities for flexible production lines of new products and created more favorable conditions for the development of new tobacco. Nanyang Tobacco has made a strong commitment to promote the expansion of a production line for slim cigarettes. The project was launched at the beginning of the year and with the full integration of the machine in July, production successfully commenced in late September, providing favorable conditions for the development and commissioning of new products in flexible workshops. The additional composite production capacity represents an important part of flexible manufacturing with multiple specifications. Today, the company has completed the installation of two core equipment units which will connect the upstream and downstream operation of equipment and technologies for new tobacco. This will also establish the necessary capacity for the production of products with multiple specifications and further strengthen the development of new tobacco products.

The duty-free market on the Guangdong and Hong Kong border, the most important market for Nanyang Tobacco, suspended operations due to the closure of the border. As a result, the sales channels became stagnant, but the impact on Hong Kong's duty-paid market and the China market was relatively small. The demand from the duty-paid market in Hong Kong grew beyond expectation as the inflow of tax-free tobacco was limited under the closure of borders. Nanyang Tobacco is now taking active measures in product marketing in order to seize a greater market share and to expand the influence of the branding. Sales from the China market increased while the import of foreign cigarettes remained steady. The tax-free markets in China, Hong Kong and Macau remained inactive under the impact of the epidemic. Overseas markets and the ship-tobacco market were adversely affected while sales in most of the targeted overseas markets remained stagnant. Nanyang Tobacco will take active measures to explore new sales channels which are less affected by the epidemic. The company has now focused on product reserves in the process of its new product development.

In terms of business cooperation, the overseas sales and production cooperation project between Nanyang Tobacco and a large mainland cigarette company has entered a substantive stage of development. Nanyang Tobacco will take this as an opportunity for strengthening and promoting cooperation between the two parties and provide strong support for building new production bases overseas and innovating sales channels in future. The parties have been promoting local production of cut tobacco, and trial production will turn into commercial production. Exclusive distributorship for overseas tax-free markets has been chosen and a target cigarette company in the Southeast Asian region will be acquired, with the intention to facilitate an orderly production in 2021.

### Printing

Wing Fat Printing recorded a turnover of HK$1,670 million for the year 2020, an increase of 1.6% over the previous year. The net profit amounted to HK$169 million, representing a year-on-year increase of 24.6%. During the year, in the face of the epidemic and the escalation of Sino-US trade friction, the company took effective epidemic prevention and control measures which enabled it to resume production in an orderly manner. Seizing the critical timing of "capacity shortage" during the early period of the epidemic, the company secured consistent growing orders from clients in the consumer electronics industry, one of the industries that most benefited from the epidemic, covering the moulded-fibre business and exquisite box business, laying a strong foundation for the company's growth in turnover.

In the later stage of the epidemic, guided by the "1+1+1" strategy implemented over the last two years, the company continued to promote the optimization of business and production structure, and is geared to develop in the direction of intelligent manufacturing enhancement. This has not only helped the company to overcome critical challenges such as structural changes in the market during the outbreak of the epidemic, irrational escalating increase in the price of paper and price cut from core clients, but also allowed the company to increase the overall profit margin in adverse environment. Supported by favorable policies offered by local governments during the outbreak of the epidemic, the company has scaled new heights in terms of profitability for the year. In 2020, Wing Fat Printing successfully completed the merger and acquisition of Wuxi Foreign Trade Printing Co., Ltd. The company also ranked the top in the supplying tender and became a core supplier of paper packaging for Shanghai Pharmaceuticals Holding.

On the assumption that the epidemic may become more rampant in the world, and that international disputes may intensify, despite Wing Fat's satisfactory results amid the epidemic, the management remained cautious about long-term challenges and weak sentiment that will prevail in the future macroeconomic environment, resulting in overall weak consumption in the post-epidemic period while the consumption boost during the epidemic may drop upon cessation of the epidemic along with the consistent rise of paper prices. To this end, the company will uphold stability and continue to thoroughly and diligently implement its established and well-planned strategies with a view to achieving all its operational targets in the coming year.

# FINANCIAL REVIEWS

## KEY FIGURES

| | 2020 | 2019 | Change % |
|---|---|---|---|
| **Results** | | | |
| Revenue (HK$'000) | 27,137,601 | 32,345,473 | -16.1 |
| Profit attributable to owners of the Company (HK$'000) | 2,218,877 | 3,349,531 | -33.8 |
| Earnings per share – basic (HK$) | 2.014 | 3.081 | -34.6 |
| Dividend per share (HK cents) | 89 | 153 | |
| – Interim – cash (paid) | 22 | – | |
| – shares in specie (paid) note | 15 | 101 | |
| – Final (proposed) | 52 | 52 | |
| Dividend payout ratio | | | |
| – Cash and Shares in specie (note (a)) | 44.2% | 49.7% | |
| – Cash | 36.8% | 16.9% | |
| Interest cover (note (b)) | 5.6 times | 6.6 times | |

| | 2020 | 2019 | Change % |
|---|---|---|---|
| **Financial Position** | | | |
| Total assets (HK$'000) | 194,882,370 | 174,942,290 | 11.4 |
| Equity attributable to owners of the Company (HK$'000) | 43,678,766 | 40,239,812 | 8.5 |
| Net assets per share (HK$) | 40.18 | 37.01 | 8.5 |
| Net debt ratio (note (c)) | 63.35% | 62.45% | |
| Gearing ratio (note (d)) | 40.98% | 42.79% | |
| Number of shares in issue (shares) | 1,087,211,600 | 1,087,211,600 | |

Note (a): (cash dividend per share + fair value of distributed share in specie per share)/earnings per share
Note (b): (profit before taxation, interest expenses, depreciation and amortization)/interest expenses
Note (c): (interest-bearing loans – cash)/equity attributable to owners of the Company
Note (d): interest-bearing loans/(equity attributable to owners of the Company + non-controlling interests + interest-bearing loans)

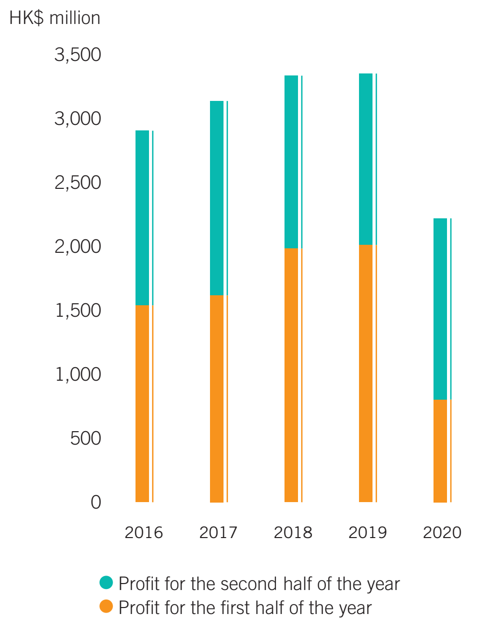
Note: The Board of Directors of the Company has resolved to pay an interim dividend for 2020 in cash of 22 HK cents per share and an interim special dividend in the form of distribution in specie on the basis of 1 SIUD Share for every 5 share of the Company held. Based on the closing price of SIUD on 22 October 2020 (the date of despatch of the SIUD Shares), the interim special dividend was HK$0.15 per share.

The Company has paid an interim dividend for 2019 in the form of distribution in specie to shareholders of the Company on the basis of 1 SIUD Share for every 1 share of the Company held. Based on the closing price of SIUD on 18 October 2019 (the date of despatch of the SIUD Shares), the interim dividend was HK$1.01 per share.

## I ANALYSIS OF FINANCIAL RESULTS

### 1 Profit attributable to owners of the Company

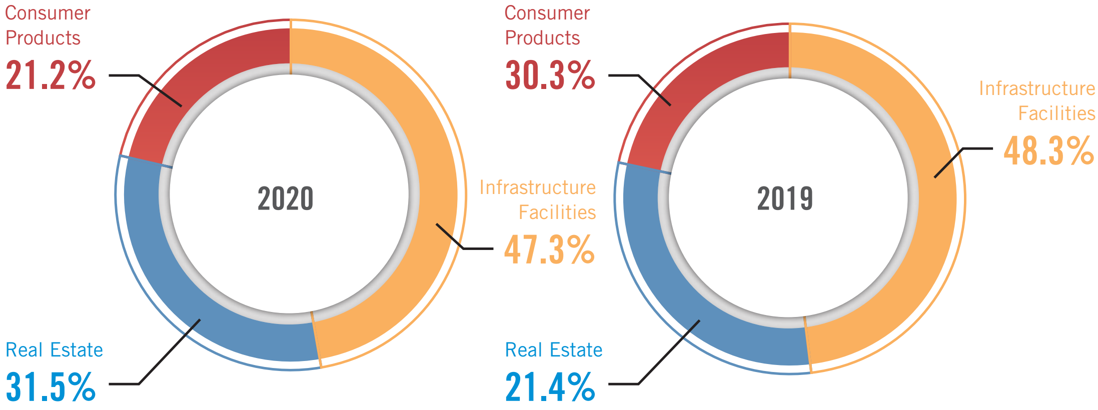
For the year ended 31 December 2020, the Group recorded a profit attributable to owners of the Company of HK$2,218.88 million, a decrease of HK$1,130.65 million or approximately 33.8% as compared to 2019.




### 2 Profit Contribution from Each Business

The profit contributed by each business in the Group for the year 2020 and the comparative figures last year was summarized as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 | Change<br>% |
|---|---|---|---|
| Infrastructure Facilities | 1,155,820 | 1,755,594 | -34.2 |
| Real Estate | 770,114 | 780,306 | -1.3 |
| Consumer Products | 518,338 | 1,103,572 | -53.0 |
| | 2,444,272 | 3,639,472 | -32.8 |




The infrastructure facilities business recorded a net profit of approximately HK$1,155.82 million for the year, accounting for 47.3% of the net business profit and representing a decrease of 34.2% over last year.

Affected by the outbreak of COVID-19 epidemic and a series of industry policies and measures introduced by the Ministry of Transport of the People's Republic of China, the revenue and profit contribution from toll roads and bridge business fell sharply. New industry policies and measures include toll exemption during the epidemic prevention and control period for toll roads and bridges, the implementation of a 5% discount on tolls for ETC lanes, and the standardisation of starting point of toll charging. Under the new measures, the Hu-Kun Expressway (Shanghai Section) recorded an after tax impairment of operating right of HK$241.59 million after valuation.

Despite the impact of epidemic, water services and waste-to-energy business managed to record an increase in profit contribution of 12.3%. Of which, SIIC Environment recorded an increase in net profit contribution of 7.5%, mainly due to profit growth driven by the increase in operating income during the year. The approximately 2% increase in equity stake of Canvest Environmental by the Company in April 2020 has increased in its profit contribution to the Group.

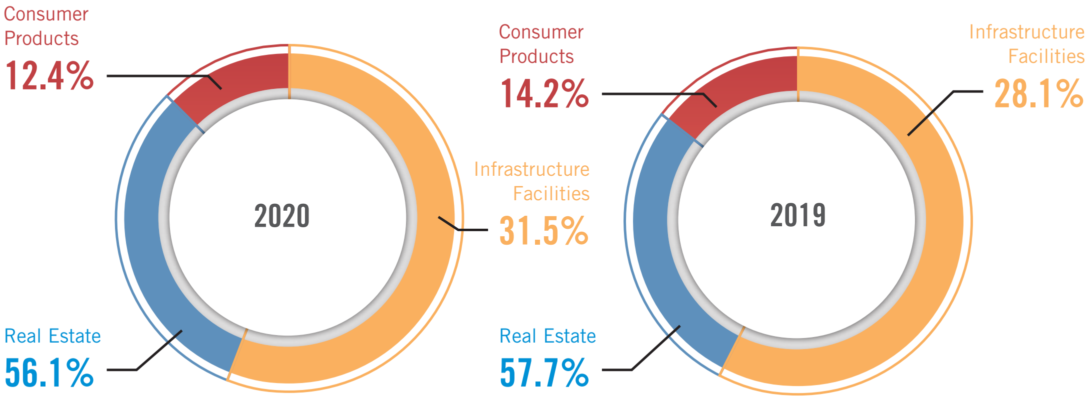
The real estate business recorded a profit of approximately HK$770.11 million, accounting for 31.5% of the net business profit, and remaining at the same level as 2019.

The consumer products business recorded a net profit of HK$518.34 million, accounting for 21.2% of the net business profit, and representing a year-on-year decrease of 53.0%. The revenue of Nanyang Tobacco decreased by 44.0% year-on-year mainly due to the decrease in duty-free and export sales affected by the epidemic, leading to the net profit decreased by HK$614.33 million or 63.0%. Wing Fat Printing's profit contribution increased by 22.7% as the revenue of moulded-fibre package segment with higher gross profit margin, increased significantly by HK$199.54 million, together with a gain on disposal of 100% equity interests in Sichuan Kemei, help offsetting the adverse impact of the printing and wine packaging business from the epidemic.

### 3 Revenue

The Group's revenue by principal activities for the year 2020 and the comparatives of last year was summarized as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 | Change<br>% |
|---|---|---|---|
| Infrastructure Facilities | 8,538,488 | 9,093,938 | -6.1 |
| Real Estate | 15,233,047 | 18,649,649 | -18.3 |
| Consumer Products | 3,366,066 | 4,601,886 | -26.9 |
| | 27,137,601 | 32,345,473 | -16.1 |




In 2020, the revenue amounted to approximately HK$27,137.60 million, representing a year-on-year decrease of 16.1%, mainly due to the operation of each business was affected by the COVID-19 outbreak. The revenue of the infrastructure facilities business recorded a decline in toll revenue due to the exemption of tolls from highways during the epidemic prevention and control period, and the measures implemented for the removal of toll stations on provincial borders. The real estate business recorded a decrease in the delivery and settlement of properties, and a decline in rental income and hotel revenue. The significant decrease in duty free and export cigarette sales was attributable to the continued customs closure measures in various areas.

### 4 Profit before Taxation

*(1) Gross profit margin*

Compared to 2019, the overall gross profit margin for the year decreased by 2.5 percentage points, mainly due to the impact on the infrastructure facilities business by the toll exemption measure implemented during the epidemic prevention and control period, the toll revenue decreased but the amortization of toll road operating rights was recognised based on the traffic volume on the basis of units-of-usage.

*(2) Other income, gains and losse*

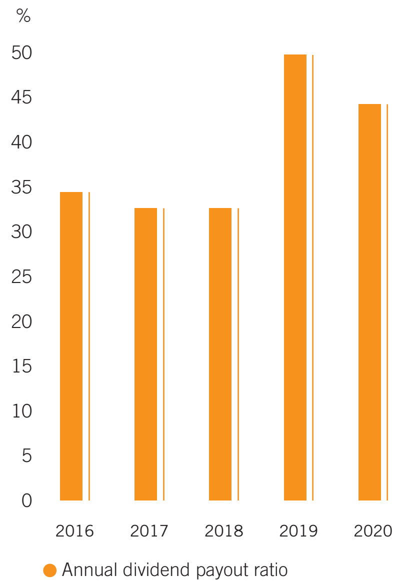
Other income, gains and losses decreased, which was mainly due to the decrease in fair value of investment properties and the impairment loss on toll road operating right.

*(3) Gain on disposal of subsidiaries/interests in associates*

The gain for the year was mainly attributable to the disposal of 67% and 100% equity interests in subsidiaries Hunan Qianshuiwan Xiangya Garden Co., Ltd. and Sichuan Kemei respectively, and 23.97% equity interests in Wufangzhai, an associate of the Company.

### 5 Dividend

The Board of Directors of the Group has proposed to declare a final dividend of HK52 cents per share (2019: HK52 cents per share). Together with an interim cash dividend of HK22 cents per share for 2020 and an interim special dividend in the form of distribution in specie of 1 SIUD Share for every 5 share of the Company held and based on the closing price of SI Urban Development on the date of despatch of the SIUD Shares on 22 October 2020, the interim special dividend was HK$0.15 per share, the total dividend amounted to HK89 cents per share for 2020 (2019: HK153 cents per share). Annual dividend payout ratio is 44.2% (2019: 49.7%).

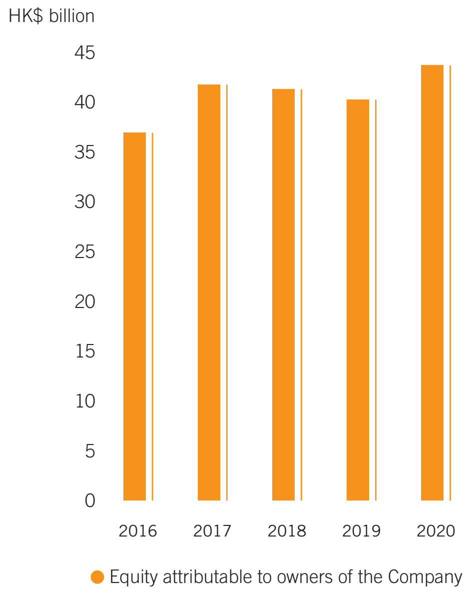



## II FINANCIAL POSITION OF THE GROUP

### 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 2020, there is no change compared with 1,087,211,600 shares as at the end of 2019.

Equity attributable to owners of the Company reached HK$43,678.77 million as at 31 December 2020, and was attributable to the net profit for the year after deducting the dividend actually paid during the year.




### 2 Indebtedness

*(1) Borrowings*

SIHL Finance Limited, a wholly-owned subsidiary of the Company, signed a HK$2.1 billion or US dollar equivalent dual-currency club loan for a term of 5 years in March 2020.

As at 31 December 2020, the total borrowings of the Group including bank borrowings and other borrowings amounted to approximately HK$56,973.81 million (31 December 2019: HK$54,456.57 million), of which 70.3% (31 December 2019: 68.5%) was unsecured credit facilities. The proportions of US dollars, Renminbi and HK dollars of total borrowings were 3%, 85% and 12% (31 December 2019: 3%, 83% and 14%) 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$10,334,774,000 (31 December 2019: HK$9,792,486,000);

(b) leasehold land and buildings with an aggregate carrying value of HK$70,816,000 (31 December 2019: HK$123,539,000);

(c) plant and machineries with an aggregate carrying value of HK$192,379,000 (31 December 2019: HK$22,590,000);

(d) one toll road operating right with a carrying value of HK$1,884,742,000 (31 December 2020: nil) as at 31 December 2019;

(e) receivables under service concession arrangements/intangible assets with an aggregate carrying value of HK$16,744,560,000 (31 December 2019: HK$14,419,408,000);

(f) properties under development held for sale with an aggregate carrying value of HK$12,537,442,000 (31 December 2019: HK$2,869,155,000);

(g) properties held for sale with an aggregate carrying value of HK$645,466,000 (31 December 2020: nil) as at 31 December 2019;

(h) trade receivables with an aggregate carrying value of HK$196,344,000 (31 December 2019: HK$172,688,000);

(i) bank deposits with an aggregate carrying value of HK$806,864,000 (31 December 2019: HK$1,292,335,000);

(j) equity interests of subsidiaries with aggregate carrying value of HK$178,190,000 (31 December 2019: nil); and

(k) land use rights included in right-of-use assets, with aggregate carrying value of HK$1,074,000 (31 December 2019: nil).

*(3) Contingent liabilities*

As at 31 December 2020, the guarantees given to banks by the Group in respect of banking facilities utilised by property buyers and associates amounted to approximately HK$7,254.14 million and HK$1,411.37 million (31 December 2019: HK$7,107.92 million and HK$2,018.77 million) respectively.

## 3 Capital Commitments

As at 31 December 2020, the Group had capital commitments mainly contracted for business developments and investments in fixed assets of HK$15,606.16 million (31 December 2019: HK$15,814.20 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 2020, bank balances, pledge bank deposits and short-term investments held by the Group amounted to HK$29,303.60 million (31 December 2019: HK$29,325.48 million) and HK$632.75 million (31 December 2019: HK$810.73 million) respectively. The proportions of US dollars and other currencies, Renminbi and HK dollars of bank balances were 4%, 85% and 11% (31 December 2019: 3%, 78% and 19%) 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 service 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 Group firmly believes that good corporate governance is of paramount importance to the Company's long-term and sustainable development. For this reason, strict corporate governance practices, adhering to the principle of transparency and accountability has been implemented throughout its operation, emphasizing internal control and risk management. In addition, in order to protect the interests of Shareholders and other stakeholders, the Group has endeavoured to improve its corporate governance system and enhance its corporate value.

## 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 the 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 2020. Details of the principles and practices of governance of the Company and all major work and relevant changes during the year are set out in this report.

## STRATEGIC OBJECTIVES AND BUSINESS MODEL

In accordance with its work plans, the Group has strategically positioned itself as a Hong Kong based company that counts on the support of mainland China. Through effective allocation of resources outside the mainland as well as integration of capital and business operations, the Group has successfully turned itself into an enterprise that has built its foundation on three core areas of business, including infrastructure and environmental protection, real estate and consumer products. Capitalizing on future development opportunities in China, the Group strives to become 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 | 3 years |
| Zhou Jun | Vice Chairman & Chief Executive Officer | 15.5 years |
| Xu Bo | Deputy CEO | 9 years |
| Xu Zhan | – | 6.5 years |
| **Independent Non-Executive Director** | | |
| Woo Chia-Wei | – | 25 years |
| Leung Pak To, Francis | – | 25 years |
| Cheng Hoi Chuen, Vincent | – | 8.5 years |
| Yuen Tin Fan, Francis | – | 4.75 years |

The members of the Board of the Company comprise professionals from different areas who have served in relevant PRC government authorities, enterprises in mainland China and Hong Kong and financial institutions, 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 48 to 49 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 the 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.

### 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 2020 annual general meeting, Mr. Zhou Jun, Prof. Woo Chia-Wei and Mr. Yuen Tin Fan, Francis, retired by rotation and were re-elected in accordance with the Company's articles of association.

At the upcoming 2021 annual general meeting, Mr. Shen Xiao Chu, Mr. Xu Bo and Mr. Cheng Hoi Chuen, Vincent shall retire by rotation in accordance with the articles of association of the Company. All of them, being eligible, have offered themselves for re-election. 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 when 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 physical board meetings. 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 2020, 14 board meetings were held by the Company (8 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 2020 is set out below:

| | Meetings held in 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Meetings attended / Meetings held | | | | | |
| | Board | Executive Committee | Audit Committee | Remuneration Committee | Nomination Committee | General Meeting |
| **Number of meetings held in the year** | **14** | **3** | **3** | **1** | **1** | **1** |
| **Executive Director** | | | | | | |
| Shen Xiao Chu | 14/14 | 3/3 | – | – | – | 1/1 |
| Zhou Jun | 14/14 | 3/3 | – | – | – | 1/1 |
| Xu Bo | 14/14 | 3/3 | – | – | – | 1/1 |
| Xu Zhan | 14/14 | – | – | – | – | 1/1 |
| **Independent Non-Executive Director** | | | | | | |
| Woo Chia-Wei | 14/14 | – | 3/3 | 1/1 | 1/1 | 1/1 |
| Leung Pak To, Francis | 14/14 | – | 3/3 | 1/1 | 1/1 | 1/1 |
| Cheng Hoi Chuen, Vincent | 14/14 | – | 3/3 | 1/1 | 1/1 | 1/1 |
| Yuen Tin Fan, Francis | 14/14 | – | 3/3 | 1/1 | 1/1 | 0/1 |
| **Committee Members** | | | | | | |
| Li Han Sheng | – | – | – | 1/1 | 1/1 | – |
| Tang Ming | – | – | – | 1/1 | 1/1 | – |
| **Attendance** | **100%** | **100%** | **100%** | **100%** | **100%** | **87.5%** |

Note: 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 2020.

### Directors' Training

Based on the Directors' training records, the trainings received by each Director for the year ended 31 December 2020 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 2019 environmental, social and governance report during the year and will prepare the 2020 environment, 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.

All members of the Executive Committee are Executive Directors. 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 2020, the Executive Committee held three meetings in the form of written resolutions. The matters considered mainly included increase in equity investment in an entity, expansion of production lines of a subsidiary, approval of cooperation project of a subsidiary and provision of shareholders' loans to subsidiaries, etc.

## 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 2020, 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, 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 (including video conference) was held in the absence of Executive Directors for the Audit Committee to meet with the auditor.

## Remuneration Committee

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

For the year ended 31 December 2020 and up to the date of this report, the Remuneration Committee has the following changes:

- On 25 March 2021, Mr. Tang Ming has resigned as a member of the Remuneration Committee due to job re-arrangement. On the same day, Ms. Zhou Xu Bo was appointed as a member of the Remuneration Committee.

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

*Major Work Done by the Remuneration Committee*

In 2020, the Remuneration Committee held one meeting. The matters considered included distribution and payment of discretionary bonuses to the Directors, proposed adjustments for the remuneration of Directors and senior management, etc.

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

*Determination of Directors' Remuneration*

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

## Nomination Committee

The Nomination Committee is mainly responsible for setting 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 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.

For the year ended 31 December 2020 and up to the date of this report, the Nomination Committee has the following changes:

- On 25 March 2021, Mr. Tang Ming has resigned as a member of the Nomination Committee due to job re-arrangement. On the same day, Ms. Zhou Xu Bo was appointed as a member of the Nomination Committee.

Following the said changes and as of the date of this report, the members of the Nomination Committee included four Independent Non-Executive Directors, namely Prof. Woo Chia-Wei, Mr. Leung Pak To, Francis, Mr. Cheng Hoi Chuen, Vincent and Mr. Yuen Tin Fan, Francis, as well as representatives from the management, namely Mr. Li Han Sheng and Ms. Zhou Xu Bo. 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 2020, the Nomination Committee held one meeting in the form of written resolutions. The matters considered included review of the structure, size and composition of the Board and the evaluation of independence of Independent Non-Executive Directors, etc. As the members of the Board come with different professional perspectives, and in terms of the background of our controlling Shareholder and operation model of the Company, the committee is of the view that the Board basically demonstrates a diversified composition and structure.

## EXECUTIVE MANAGEMENT

### Management Executives

The duties of the Executive Committee as authorized by the Board are delegated to the management executives under the committee and will be performed by the respective functional departments. As of the date of this report, members of the management executives included Mr. Zhou Jun, Mr. Xu Bo, Mr. Li Han Sheng, Mr. Xu Zhan, Mr. Yang Qiu Hua and Mr. Yang Jian Wei. 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 8 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 professional development programmes for the Directors, where applicable. 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 50 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 2021, subject to approval by Shareholders at the annual general meeting to be held on 25 May 2021.

The audit fee of the external auditor for 2020 amounted to HK$17,244,000. 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 | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Financial due diligence of acquisition project and auditor's report fee | **4,276** | 1,100 |
| Tax consultation fee | **261** | 411 |
| Others | **974** | 1,823 |
| **Total** | **5,511** | 3,334 |

## Preparation of Financial Statements

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

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

## Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving its strategic objectives and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board will also, through the Audit Committee, oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management has provided a confirmation to the Board on the effectiveness of these systems during the year. 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 those including 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 2020, 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 2020, SIIC, the controlling Shareholder, indirectly held 679,880,748 Shares (excluding the interest in the underlying shares and short positions) with a shareholding percentage at approximately 62.53% (excluding the underlying Shares). The percentage of public float was approximately 37.47%.

### 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 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

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.

## INVESTOR RELATIONS

During the year, in view of the need for control measures to prevent the spread of the epidemic, the Company has taken the initiative to change its normal way of operation. For example, instead of holding traditional offline press conference, the Group successfully conducted two online results announcements. In addition, the Company has actively participated in online investor seminars and one-on-one meetings organized by investment banks, fostering communication with investors and the media and to further promoting the Company's presence in the capital market.

Online activities in which the Company has participated during the year included an open day for listed companies as well as the Asia Pacific investment summit. On these occasions, the Company's management exchanged in-depth views with participants and explained to them the Company's breakthroughs in business development and transformation. Analysts and investors were invited to a reversed roadshow in Hong Kong in the beginning of the year during which they were introduced to the Company's consumer products business. The participating guests also toured around our newly-built versatile processing lines where they gained a better knowledge and understanding of the Company's business development and strategy through interactions with our factory managers.

To reflect the Company's recognition in corporate governance, it was awarded The Fourth China IR Excellence Best Information Disclosure Accolade selected by a professional organization which incorporated listed companies and real-name investors. It also won the Certificate of Excellence granted by the Hong Kong Investor Relations Association (HKIRA), in recognition of the Group's performance and achievements in the capital market during the year.

## INFORMATION DISCLOSURE

The Company also established its own Inside Information Disclosure Policy and required reporting 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, sending circulars to Shareholders, by way of our WeChat public account 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$1,771 million for the year (2019: HK$1,707 million). Details of Directors' remuneration paid for the year ended 31 December 2020 are set out in note 10 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 2020 was as follows:

| Remuneration by band (HK$) | 2020<br>Number of individuals |
|---|---|
| 1,000,001 – 2,000,000 | 2 |
| 2,000,001 – 3,000,000 | 3 |
| | 5 |

### Share Options

The Company adopted the SIHL Scheme at the extraordinary general meeting held on 25 May 2012. Up to 31 December 2020, 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 the SI Urban Development New Scheme was adopted at the annual general meeting held on 16 May 2014. Up to 31 December 2020, 21,750,000 share options lapsed and no share options outstanding under the SI Urban Development Scheme. Apart from that, no share options were granted or outstanding under the SI Urban Development New Scheme during the year.

SIIC Environment, a subsidiary of the Company, adopted the SIIC Environment Scheme at the extraordinary general meeting held on 27 April 2012. Up to 31 December 2020, no share options were granted or outstanding under the SIIC Environment Scheme.

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

By Order of the Board

**Yee Foo Hei**
*Company Secretary*

30 March 2021

# DIRECTORS' AND SENIOR MANAGEMENT PROFILES

## DIRECTORS

### Executive Directors

**Mr. SHEN Xiao Chu** *Executive Director, Chairman*
(Appointed on 28 February 2018 ~ Present)

Mr. Shen, aged 59, is currently the chairman of Shanghai Industrial Investment (Holdings) Company Limited. He graduated from Shanghai Second Medical University and Shanghai Jiao Tong 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 52, 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. 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., the chairman of SIIC Shanghai Capital Management Co., Ltd. and the chairman of Shanghai Culture Industry Development Fund. 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 Investment 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 president of Shanghai Youth Entrepreneurs Association, the president of Shanghai Pharmaceutical Profession Association and the president of Shanghai Association of Environmental Protection Industry. He has many 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 59, 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. 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 many years' experience in finance and corporate management.

**Mr. XU Zhan** *Executive Director*
(Appointed on 17 November 2016 ~ Present)

Mr. Xu, aged 50, is an assistant president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also a director of certain other subsidiaries of the Group. Mr. Xu graduated from Shanghai Jiao Tong 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 is a director of Shanghai Galaxy Investment Co., Ltd. ("Shanghai Galaxy"). Mr. Xu was the general manager and assistant general manager of Shanghai Galaxy, the chairman of SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd., assistant general manager of the finance and planning department of SIIC and an executive director and chief financial officer of SIIC Environment Holdings Ltd. Mr. Xu has many years' experience in finance and investment financing.

### Independent Non-Executive Directors

**Prof. WOO Chia-Wei** *Independent Non-Executive Director*
(Appointed on 15 March 1996 ~ Present)

Prof. Woo, aged 83, 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 66, 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. 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 72, is an independent non-executive director of Great Eagle Holdings Limited, Hui Xian Asset Management Limited (manager of the publicly listed Hui Xian Real Estate Investment Trust), Wing Tai Properties Limited, CK Hutchison Holdings Limited and AirStar Bank. He is the former chairman of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited and the adviser to the former group chief executive of HSBC Holdings plc. Mr. Cheng was conferred the doctoral degree of social science, honoris causa, by The Chinese University 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 68, is currently the independent non-executive deputy chairman of Pacific Century Regional Developments Limited and an independent non-executive director of Yixin Group Limited. Mr. Yuen was formerly the 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, executive chairman of Pacific Century Insurance Holdings Limited and an independent non-executive director of Agricultural Bank of China Limited. Mr. Yuen holds a Bachelor of Arts degree in economics from the University of Chicago. He is the chairman of the board of trustees of the Hong Kong Centre for Economic Research, chairman of the advisory board of Ortus Capital Management Limited, and a member of the board of University of Chicago and Fudan University in Shanghai.

## SENIOR MANAGEMENT

**Mr. LI Han Sheng**
Mr. Li, aged 57, 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 of SIIC. He was also the head of the information technology department of the Company. He has many years' experience in corporate management and information technology.

**Mr. YANG Qiu Hua**

Mr. Yang, aged 48, was appointed a Deputy CEO of the Company in January 2021. He is also 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 graduated from East China University of Science and Technology with a master's degree and holds the designation of senior engineer and economist. Mr. Yang was a vice president of SIIC Investment (Shanghai) Co., Ltd., the vice chairman and general manager of SIIC Investment Company Limited, the chairman of The Tien Chu (Hong Kong) Company Limited and Shanghai International Asset Management (Hong Kong) Company Limited as well as the managing director of Shanghai Sunway Biotech Co., Ltd. He has many years' experience in enterprise management.

**Mr. YANG Jian Wei**

Mr. Yang, aged 49, was appointed a Deputy CEO of the Company in January 2021. He is also an executive director and the chief executive officer of SIIC Environment Holdings Ltd., the chairman of SIIC Management (Shanghai) Ltd. ("SIIC Management"), a director of Shanghai Industrial Development Co., Ltd., Nanyang Brothers Tobacco Company, Limited and certain other subsidiaries of the Group. He graduated from Huazhong University of Science and Technology and Shanghai Jiao Tong 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, Assistant CEO of the Company and the general manager of SIIC Management. He has many years' experience in financial investment, securities research, investment banking, project planning and business operation.

## PROFESSIONAL STAFF

**Mr. YEE Foo Hei, Jackson**

Mr. Yee, aged 57, 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 Chartered Governance Institute 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 53, 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 50, is a director of Shanghai Industrial Investment (Holdings) Company Limited. He is the chairman of Shanghai Industrial Development Co., Ltd. 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 the chairman of the board of Shanghai Industrial Urban Development Group Limited and has many years' experience in corporation management.

**Mr. XU Xiao Bing**
Mr. Xu, aged 54, is the president of Shanghai Industrial Development Co., Ltd. and an executive director of SIIC Environment Holdings Ltd. ("SIIC Environment"). 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, a Deputy CEO of the Company and 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 and the chief executive officer of SIIC Environment. He has many years' experience in corporate management and investment planning.

**Mr. HUANG Hai Ping**
Mr. Huang, aged 54, is a director and vice president of Shanghai Industrial Investment (Holdings) Company Limited. He is also the chairman of the board of Shanghai Urban Development Group Limited. He graduated from the Shanghai Education Institute majoring in political education (undergraduate) and obtained a bachelor degree of laws from the Shanghai Normal University. He holds the title of political engineer. Mr. Huang previously acted as deputy officer of the Huangpu District Xiaodongmen Sub-district Office, officer of the Huangpu District Bansongyuan Road Sub-district Office, director of the Huangpu District Housing and Land Administrative Bureau, leader of the Joint Preparation Group of the Huangpu District Development and Reform Commission, director of the Huangpu District Housing Security and Housing Administrative Bureau, deputy director of the Putuo District Government of Shanghai and vice chairman of the CPC Shanghai Putuo District Committee. He has many years' experience in urban construction and management.

**Mr. TANG Jun**
Mr. Tang, aged 53, is an executive director and the president of Shanghai Industrial Urban Development Group Limited. 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 many years' practical experience in the fields of auditing and finance.

**Mr. DAI Wei Wei**
Mr. Dai, aged 51, is a director and the general manager of SIIC Management (Shanghai) Limited, a director of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Shen-Yu Development Co., Ltd. and Shanghai Luqiao Development Co., Ltd. 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, and holds the designation of a senior engineer. He worked in Shanghai Mass Transit Railway Corporation, Shanghai Municipal Engineering Administration and Shanghai Jiajin Highway Development Co., Ltd. He has many years' experience in construction and management of infrastructure.

**Ms. CHANG Jin Yu**
Ms. Chang, 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. and a director of Shanghai Luqiao Development Co., Ltd. ("Luqiao Development"). Ms. Chang graduated from School of Mechanical Engineering of Shanghai Jiao Tong University, Shanghai University of Finance and Economics and Arizona State University, USA with a bachelor's degree in engineering, a master's degree in finance and a master's degree in business administration respectively, and obtained a qualified certificate of chief financial officer from Shanghai National Accounting Institute. She was deputy general manager of SIIC Management (Shanghai) Ltd., and an executive deputy general manager of Luqiao Development. She has many years' experience in mergers and acquisitions, financial investment, project planning and enterprise management.

**Mr. GU Yao Zhong**
Mr. Gu, aged 52, is a director and the general manager of Shanghai Luqiao Development Co., Ltd. Mr. Gu graduated from Shanghai University (formerly Shanghai Vocational College of Science and Technology), and obtained a bachelor's degree in engineering and holds the designation of a mid-level engineer. He was a manager of the engineering department of Shanghai Pujiang Bridge and Tunnel Operation and Management Co., Ltd. and assistant general manager and deputy general manager of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. He has many years' experience in operation management and maintenance of bridge, tunnel and highway.

**Mr. XU Tao**
Mr. Xu, aged 60, is a director and the president of The Wing Fat Printing Company, Limited ("Wing Fat Printing") and chairman of other certain subsidiaries of Wing Fat Printing. He graduated from Shanghai Lixin College of Accounting with a college degree. Mr. Xu was the general manager of Hebei Yongxin Paper Co., Ltd., Zhejiang Rongfang Paper Co., Ltd., Wingfat Printing (Sichuan) Co., Ltd., Wingfat (Henan) Molding Technology Development Co., Ltd. and Wingfat (Jiangsu) Molding & Packaging Technology Co., Ltd. He has extensive experience in printing, packaging, mouldedfibre and paper industry.

# DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## 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 2020 are set out in notes 48, 49 and 50 to the consolidated financial statements respectively.

## BUSINESS REVIEW

A fair review of the Group's business including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, is set out in the section of "Business Review, Discussion and Analysis" set out on pages 12 to 28 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 36 to 47 of this Annual Report.

Such discussion forms part of this Directors' Report.

## DIVIDENDS

The results of the Group for the year ended 31 December 2020 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 70 to 191 of this Annual Report.

In respect of the interim dividend for the year, the Company completed the payment of HK22 cents per Share to the Shareholder and in the form of distribution in specie to the Qualifying Shareholders on the basis of 1 SIUD Share for every 5 Shares held (2019: interim dividend in the form of distribution in specie to the qualifying Shareholders of the Company on the basis of 1 SIUD Share for every 1 Share held). The Directors recommended 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 4 June 2021.

## FINANCIAL SUMMARY

A summary of the financial information of the Group for the year ended 31 December 2020 and the previous four years is set out on page 192 of this Annual Report.

## SHARE CAPITAL

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

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders as at 31 December 2020 represented retained profits of HK$18,805,127,000 (2019: HK$17,918,691,000).

## DIRECTORS

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

### Executive Directors

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

### Independent Non-Executive Directors

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

The biographical details of the Directors are set out on pages 48 to 49 of this Annual Report. Details of Directors' emoluments are set out in note 11 to the consolidated financial statements.

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

## 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 2020 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 2020 and up to the date of this report, the Company has in force permitted indemnity provisions for the benefits of the directors of the Company (including former directors) or of its associated companies.

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

At 31 December 2020, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### (I) Interests in shares and underlying shares of the Company

| Name of Director | Capacity | Nature of interests | Number of issued Shares held | Approximate percentage of the issued Shares |
|---|---|---|---|---|
| Zhou Jun | Beneficial owner | Personal | 300,000 | 0.03% |

Note: All interests stated above represent long positions.

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

*SI Urban Development*

| Name of Director | Capacity | Nature of interests | Number of issued SIUD Shares held | Approximate percentage of the issued SIUD Shares |
|---|---|---|---|---|
| Zhou Jun | Beneficial owner | Personal | 360,000 | 0.01% |

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 2020.

## EQUITY-LINKED AGREEMENTS

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

### Share options

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

*(I) SIHL Scheme*

The SIHL Scheme 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 1.1.2020 | Lapsed during the year | Outstanding at 31.12.2020 |
|---|---|---|---|---|---|
| Category 1:<br>Directors of SI Urban Development | 24.9.2010 | 2.98 | 21,000,000 | (21,000,000) | – |
| Category 2:<br>Employees of SI Urban Development | 24.9.2010 | 2.98 | 6,750,000 | (6,750,000) | – |
| Total for all categories | | | 27,750,000 | (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.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY

Save as disclosed under the section "Equity-linked Agreements" above, neither the Company nor a specified undertaking (within the meaning of the Companies Ordinance) of the Company was a party to any other arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during or at the end of the year.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, 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 Shares beneficially held | Approximate percentage of the issued Shares |
|---|---|---|---|---|
| SIIC | Interests held by controlled corporations | Corporate | 679,880,748 *(Notes 1 and 2)* | 62.53% |

Notes:

1. SIIC through its subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, Shanghai Industrial Financial Holdings (Hong Kong) Company Limited, SIIC Trading Company Limited and SIIC CM Development Limited held 519,409,748 Shares, 80,000,000 Shares, 52,908,000 Shares, 27,553,000 Shares and 10,000 Shares 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 2020.

## CONNECTED TRANSACTIONS

The following connected transactions and continuing connected transactions (other than those exempt from reporting, announcement and independent Shareholders' approval requirements under the Listing Rules) were entered into between the Group and its connected persons and/or were subsisting during the year ended 31 December 2020:

### 1. Provision of assets management services by Shanghai Galaxy

On 25 June 2018, certain indirect wholly-owned subsidiaries of the Company, namely Hu-Ning Expressway, Shanghai Luqiao Development Co., Ltd., Shanghai Shen-Yu Development Co., Ltd. and Shanghai Ji Yun Infrastructure Construction Co., Ltd. (together the "**Relevant Companies**" and each a "**Relevant Company**"), each entered into an entrustment agreement with Shanghai Galaxy on the same terms pursuant to which each Relevant Company entrusted Shanghai Galaxy to manage its assets for a term of three years from the date when Shanghai Galaxy served the written notice to it requesting for the provision of the initial entrustment fund under the relevant entrustment agreement (the "**Commencement Date**") to the date immediately prior to the third anniversary of the Commencement Date (the "**Expiry Date**").

The total maximum amount of the entrustment funds to be provided by all these four Relevant Companies shall be no more than RMB600,000,000, provided that the maximum amount of entrustment fund from each Relevant Company would not exceed RMB200,000,000.

Shanghai Galaxy shall pay guaranteed returns calculated on a daily basis at the rate of 5% per annum on the accumulated principal of the entrustment funds. The annual caps for the aggregate amount of guaranteed returns payable to the Relevant Companies by Shanghai Galaxy under the entrustment agreements were RMB15,863,014 for the period from the Commencement Date to 31 December 2018, RMB30,000,000 for the period from 1 January 2019 to 31 December 2019, RMB30,000,000 for the period from 1 January 2020 to 31 December 2020 and RMB30,000,000 for the period from 1 January 2021 to the Expiry Date.

If there was any revenue surplus after making the above distribution and deducting all taxes and expenses, such sum shall be divided between Shanghai Galaxy and the Relevant Companies on a 50:50 basis. The annual caps for the aggregate amount of revenue surplus payable to the Relevant Companies or Shanghai Galaxy under the entrustment agreements were RMB317,260,274 for the period from the Commencement Date to 31 December 2018, RMB600,000,000 for the period from 1 January 2019 to 31 December 2019, RMB600,000,000 for the period from 1 January 2020 to 31 December 2020 and RMB600,000,000 for the period from 1 January 2021 to the Expiry Date.

On 18 September 2018, each of the above four Relevant Companies and Shanghai Galaxy separately entered into a supplementary agreement on the same terms, pursuant to which the scope within which the entrusted funds could be invested under the relevant entrustment agreement was extended. All other existing terms and conditions under the above four entrustment agreements remained unchanged and in full force and effect.

On the same date, Wing Fat Printing (Dongguan) Co., Ltd. ("**WF Dongguan**"), an indirect non-wholly owned subsidiary of the Company, entered into an entrustment agreement with Shanghai Galaxy on the same terms (other than the maximum amount of entrustment fund to be provided by WF Dongguan) as those of the above four entrustment agreements (as supplemented and amended by the supplementary agreements).

The total maximum amount of the entrustment funds to be provided by all the Relevant Companies and WF Dongguan under the five entrustment agreements shall remain to be no more than RMB600,000,000, provided that the maximum amount of entrustment fund from WF Dongguan would not exceed RMB400,000,000. The annual caps for (a) the aggregate amount of guaranteed returns payable to all the Relevant Companies and WF Dongguan by Shanghai Galaxy, and (b) the aggregate amount of revenue surplus payable to all the Relevant Companies and WF Dongguan or Shanghai Galaxy under all the five entrustment agreements remained the same as those under the four entrustment agreements mentioned above.

As SIIC, the controlling Shareholder, through its wholly-owned subsidiary, held 10% of the registered capital of Shanghai Galaxy and exercised the authority as a state-owned shareholder of SIIC Shanghai Holdings Co., Ltd. ("**SIIC Shanghai**"), which in turn was a state-owned enterprise holding 45% of the registered capital of Shanghai Galaxy, Shanghai Galaxy was an associate of SIIC and a connected person of the Company.

### 2. Shareholder's loan facility provided by Hu-Ning Expressway to Shanghai Galaxy

As a shareholder's loan facility, which was in an aggregate principal amount of up to RMB500,000,000 made available by Hu-Ning Expressway (an indirect wholly-owned subsidiary of the Company) to Shanghai Galaxy for a term of three years from 21 January 2016 (the "**Shareholder's Loan Facility**"), expired on 20 January 2019, Hu-Ning Expressway agreed to extend the Shareholder's Loan Facility available to Shanghai Galaxy on substantially the same terms for a further term of three years from 21 January 2019 to 20 January 2022 (the "**Renewed Shareholder's Loan Facility**"). The Board has approved the Renewed Shareholder's Loan Facility on 29 August 2018.

Under the Renewed Shareholder's Loan Facility, Hu-Ning Expressway shall upon request provide term loan(s) to Shanghai Galaxy during the term of the Renewed Shareholder's Loan Facility, and the relevant loan amount shall be determined on a case-by-case basis based on the purpose of use, with the maximum amount representing the unutilised portion of the Renewed Shareholder's Loan Facility. The duration of each term loan would be negotiated on a case-by-case basis. Each term loan would expire by the end of the three-year period from 21 January 2019, i.e. 20 January 2022.

Interest under the Renewed Shareholder's Loan Facility shall be the benchmark interest rate of RMB denominated loans for the same period as announced by the People's Bank of China, subject to the negotiation and agreement between the parties at the time of each drawdown. Amounts advanced under a loan shall be repaid at maturity. Shanghai Galaxy might repay the principal amount prior to the maturity date of the loan. Interest shall be repaid on a semi-annual basis.

In respect of each term loan, individual loan agreement(s) would be entered into between Hu-Ning Expressway and Shanghai Galaxy setting out the interest rate as agreed, the loan amount and the repayment term before the drawdown.

The annual caps of the Renewed Shareholder's Loan Facility for each of the financial years ended 31 December 2019, 2020, 2021 and 2022 were RMB522,760,417, RMB524,145,834, RMB524,079,862 and RMB501,319,445 respectively, being the possible maximum loan amount that could be granted under the Renewed Shareholder's Loan Facility plus the maximum interest income generated in the respective year. Shanghai Galaxy would be responsible for any profit tax payable by Hu-Ning Expressway in relation to its interest income.

As mentioned above, Shanghai Galaxy was an associate of SIIC and a connected person of the Company.

### 3. Tenancy agreements – Tuen Mun Lease Agreement and Harcourt Tenancy Agreement

On 23 December 2019, Nanyang Tobacco (an indirect wholly-owned subsidiary of the Company) and the Company, as tenants, entered into the lease agreements (i.e. the lease agreement relating to a 16-storey property situated at No. 9 Tsing Yeung Circuit, Tuen Mun, New Territories, Hong Kong (the "**Tuen Mun Lease Agreement**"), and the tenancy agreement relating to a property situated at the whole of 26th Floor and a portion of 27th Floor of Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong (the "**Harcourt Tenancy Agreement**")) with Nanyang Enterprises Properties Limited ("**Nanyang Enterprises**") and International Hope Limited ("**International Hope**") respectively, as landlords, with a term commencing from 1 January 2020 to 31 December 2020 (both days inclusive) to renew the previous lease agreements, both of which expired by 31 December 2019, for the operation of the Group.

The monthly rentals (exclusive of rates, management fee and other outgoings) under the Tuen Mun Lease Agreement and the Harcourt Tenancy Agreement were HK$2,750,000 and HK$937,400 respectively. The annual caps, which represented the sum of (a) the rental payable by Nanyang Tobacco to Nanyang Enterprises under the Tuen Mun Lease Agreement for the year from 1 January 2020 to 31 December 2020 in the amount of HK$33,000,000, and (b) the rental payable by the Company to International Hope under the Harcourt Tenancy Agreement for the year from 1 January 2020 to 31 December 2020 in the amount of HK$11,248,800, were HK$44,248,800.

Nanyang Enterprises and International Hope were wholly-owned subsidiaries of SIIC, therefore they were associates of SIIC and connected persons of the Company.

### 4. Subscription of equity interest in SIIC Financial Leasing

On 22 January 2020, 上實城開(上海)城市建設開發有限公司 (Shanghai Industrial Urban Development (Shanghai) City Construction and Development Company Limited*) ("**SSUD**"), an indirect subsidiary of the Company, entered into a subscription agreement (the "**Subscription Agreement**") with SIIC Financial Leasing, Shanghai Galaxy, 北京真辰資產管理有限公司 (Beijing Zhenchen Asset Management Co., Ltd.*) ("**Beijing Zhenchen**"), 上海真辰實業發展有限公司 (Shanghai Zhenchen Industrial Development Co., Ltd.*) ("**Shanghai Zhenchen**"), Happy Sincere Investment Limited ("**Happy Sincere**") (Beijing Zhenchen, Shanghai Zhenchen and Happy Sincere are collectively defined as the "**Managing JV Partners**") and 林振先生 ("**Mr. Lin Zhen***"), pursuant to which, among other things, SSUD conditionally agreed to subscribe for 20% of the enlarged registered capital of SIIC Financial Leasing by injecting RMB407,942,343 cash into SIIC Financial Leasing (the "**SSUD Subscription**").

Pursuant to the Subscription Agreement, SSUD conditionally agreed to subscribe for 20% of the enlarged registered capital of SIIC Financial Leasing by injecting RMB407,942,343 into SIIC Financial Leasing. Concurrently with the SSUD Subscription, Happy Sincere agreed to increase its capital contribution in SIIC Financial Leasing by further injecting RMB155,763,370 so that following completion of the Subscriptions, its interest in SIIC Financial Leasing would be approximately 25.73%.

Under the Subscription Agreement, the Managing JV Partners and Mr. Lin Zhen undertook to compensate SSUD, on a joint and several basis, if the rate of the return on net assets of SIIC Financial Leasing for the first financial year following completion of the SSUD Subscription was less than 8%.

The Managing JV Partners and Mr. Lin Zhen agreed that each of SIIC Financial Leasing and SSUD shall have the right to request a valuation to be carried out on certain properties located in the building known as 逐源大廈 (Zhuyuan Mansion*) situated at No. 10 Yangshupu Lu, Shanghai, the PRC (the "**Properties**") at any time during the period of three years commencing from the first year following completion of the acquisition of the Properties by SIIC Financial Leasing. If such valuation indicates that the prevailing valuation of the Properties was less than the original purchase price of the Properties paid by SIIC Financial Leasing (the "**Acquisition Cost**") by 10% or more, the Managing JV Partners and Mr. Lin Zhen shall either acquire the Properties at the Acquisition Cost or pay SIIC Financial Leasing an amount equivalent to the difference between such valuation and the Acquisition Cost.

As mentioned above, Shanghai Galaxy was an associate of SIIC. As at the date of the Subscription Agreement, SIIC Financial Leasing was owned by Shanghai Galaxy as to approximately 40% and was therefore an associate of SIIC. Accordingly, each of Shanghai Galaxy and SIIC Financial Leasing was a connected person of the Company.

### 5. Disposal of interest in Wufangzhai

On 21 April 2020, Hu-Ning Expressway, an indirect wholly-owned subsidiary of the Company, entered into a share transfer agreement with Shanghai Galaxy, pursuant to which Hu-Ning Expressway agreed to sell, and Shanghai Galaxy agreed to purchase, 18,112,500 shares in Wufangzhai (representing approximately 23.9719% of the registered capital of Wufangzhai) for a total consideration of RMB419,508,055.

As mentioned above, Shanghai Galaxy was an associate of SIIC and a connected person of the Company.

### 6. Extension of entrusted loan arrangement provided by Shanghai Shen-Yu to SIIC Financial Services

On 8 June 2018, an entrusted loan arrangement (the "**SFS Entrusted Loan Arrangement**") was entered into among Shanghai Shen-Yu (an indirect wholly-owned subsidiary of the Company), Industrial Bank Co., Ltd., Shanghai People's Square Branch ("**Industrial Bank**") (as lending agent) and 上海上實金融服務控股股份有限公司 (SIIC Financial Services Holding Co., Ltd.*) ("**SIIC Financial Services**") (as borrower), pursuant to which Industrial Bank granted a loan in the principal amount of RMB100,000,000, which was funded by Shanghai Shen-Yu, to SIIC Financial Services, with a term of one year from 8 June 2018 (the "**SFS Entrusted Loan**").

The SFS Entrusted Loan Arrangement comprised two contracts, namely an entrusted loan entrustment contract (the "**SFS Entrusted Loan Entrustment Contract**") and an entrusted loan contract (the "**SFS Entrusted Loan Contract**"). The SFS Entrusted Loan Entrustment Contract was entered into between Shanghai Sheng-Yu and Industrial Bank on 8 June 2018, pursuant to which Shanghai Shen-Yu agreed to entrust a sum of RMB100,000,000 with Industrial Bank which shall provide loan to SIIC Financial Services upon instructions from Shanghai Shen-Yu for a handling fee of RMB10,000 payable by Shanghai Shen-Yu. The SFS Entrusted Loan Contract was entered into between Industrial Bank and SIIC Financial Services on 8 June 2018 to set out details of the SFS Entrusted Loan.

As the SFS Entrusted Loan Arrangement expired on 7 June 2019, Shanghai Shen-Yu, Industrial Bank and SIIC Financial Services entered into an extension agreement (the "**SFS Extension Agreement**") on 5 June 2019 on substantially the same terms as those under the SFS Entrusted Loan Arrangement in order to extend the term of the SFS Entrusted Loan for a 12-month period from 7 June 2019 to 6 June 2020.

Under the SFS Extension Agreement, the principal amount of the loan remained unchanged (i.e. RMB100,000,000); the interest rate of the loan was 5.5% during the extended term, and the interest shall be accrued daily and paid every quarter.

Under the SFS Extension Agreement, SIIC Financial Services shall repay the principal amount of the loan upon the expiry of the term but may repay it before the expiry of the term after consultation with Industrial Bank and with the consent of Shanghai Shen-Yu.

SIIC Financial Services was an indirect wholly-owned subsidiary of SIIC and was therefore an associate of SIIC and a connected person of the Company.

### 7. Entrusted loan arrangement provided by Shanghai Shen-Yu to Shanghai Galaxy

On 21 June 2018, Shanghai Shen-Yu (an indirect wholly-owned subsidiary of the Company, as lender), Shanghai Pudong Development Bank Co., Ltd., Chongming Branch ("**Shanghai Pudong Bank**") (as lending agent) and Shanghai Galaxy (as borrower) entered into an entrusted loan contract (the "**SG Entrusted Loan Contract**"), pursuant to which Shanghai Shen-Yu entrusted Shanghai Pudong Bank to grant a loan in the principal amount of RMB200,000,000 to Shanghai Galaxy, with a term of 12 months to support the operation and development of Shanghai Galaxy.

As the SG Entrusted Loan Contract expired on 20 June 2019, Shanghai Shen-Yu, Shanghai Pudong Bank and Shanghai Galaxy entered into an extension Agreement (the "**SG Extension Agreement**") on 17 June 2019 on substantially the same terms as the SG Entrusted Loan Contract in order to extend the terms of the loan under the SG Entrusted Loan Contract for a 12-month period from 21 June 2019 to 20 June 2020, with the principal amount of the loan revised to RMB160,000,000.

Under the SG Extension Agreement, the fixed interest rate of the loan was 5% per annum, and the interest shall be accrued daily and settled by Shanghai Galaxy quarterly during the term of the loan. Shanghai Galaxy shall make a bullet repayment upon the expiry of the SG Extension Agreement.

The loan under the SG Extension Agreement was repaid on 15 June 2020.

On 15 June 2020, Shanghai Shen-Yu (as lender), Shanghai Pudong Bank (as lending agent) and Shanghai Galaxy (as borrower) entered into an entrusted loan arrangement (the "**SG Entrusted Loan Arrangement**") for the provision of a loan in the principal amount of RMB100,000,000, which would be funded by Shanghai Shen-Yu, to Shanghai Galaxy for a 12-month period from 15 June 2020 to 14 June 2021 (the "**SG Entrusted Loan**").

The SG Entrusted Loan Arrangement comprised two agreements, namely an entrusted agreement (the "**SG Entrustment Agreement**") and an entrusted loan agreement (the "**SG Entrusted Loan Agreement**").

The SG Entrustment Agreement was entered into between Shanghai Sheng-Yu and Shanghai Pudong Bank on 15 June 2020, pursuant to which Shanghai Shen-Yu entrusted Shanghai Pudong Bank to provide a loan in the principal amount of RMB100,000,000 to Shanghai Galaxy by 15 June 2020 at an annual interest rate of 5%, for an agency fee of 0.01% per annum payable by Shanghai Shen-Yu with reference to the principal amount of the SG Entrusted Loan and the term of the loan.

The SG Entrusted Loan Agreement was entered into between Shanghai Shen-Yu, Shanghai Pudong Bank and Shanghai Galaxy on 15 June 2020, pursuant to which the fixed interest rate of the SG Entrusted Loan was 5% per annum and the interest shall be accrued daily and settled by Shanghai Galaxy quarterly during the term of the SG Entrusted Loan. In addition, Shanghai Galaxy shall make a bullet repayment upon the expiry of the SG Entrusted Loan Agreement.

As mentioned above, Shanghai Galaxy was an associate of SIIC and a connected person of the Company.

**8. Formation of Joint Venture for development of a medical beauty institution**

上實城開(上海)大健康管理有限公司 (Shanghai Industrial Urban Development (Shanghai) Healthcare Management Co., Ltd.*) ("**SIUD Shanghai Healthcare Management**"), an indirect non-wholly owned subsidiary of the Company, proposed to participate in the proposed formation of 上實(上海)醫療美容醫院有限公司 (SIIC (Shanghai) Medical Cosmetology Hospital Co., Ltd.*) (the "**Joint Venture**") whereby the Joint Venture would engage in the development and operation of a medical beauty institution in Shanghai, the PRC.

The JV Partners would establish the Joint Venture and adopt the memorandum and articles of association of the Joint Venture as its constitutional document for the purpose of carrying out the project for the development and operation of a medical beauty institution (the "**Project**").

The total investment amount for the establishment of the Joint Venture shall be RMB150,000,000, which shall be contributed by the JV Partners as follows:

| JV Partner | Capital contribution *RMB* | Equity interest in the Joint Venture |
|---|---|---|
| Shanghai Lingfeng Medical | 76,500,000 | 51% |
| Shanghai Huashi | 45,000,000 | 30% |
| SIUD Shanghai Healthcare Management | 28,500,000 | 19% |

Each of the JV Partners was required to pay up its respective committed registered capital within two years after the issue date of the business licence of the Joint Venture.

上海凌風醫療管理有限公司 (Shanghai Lingfeng Medical Management Co., Ltd.*) ("**Shanghai Lingfeng Medical**"), 上海華氏資產經營有限公司 (Shanghai Huashi Asset Management Co., Ltd.) ("**Shanghai Huashi**") and SIUD Shanghai Healthcare Management (collectively, the "**JV Partners**") would engage 上海交通大學醫學院附屬第九人民醫院 (Shanghai No. 9 People's Hospital Affiliated to Shanghai JiaoTong University, School of Medicine*) ("**Shanghai No. 9 People's Hospital**") to provide technical management consulting support in relation to hospital management and medical affairs to the Joint Venture. In this connection, on 30 October 2020, the JV Partners entered into a management agreement with Shanghai No. 9 People's Hospital.

Shanghai Lingfeng Medical was a wholly-owned subsidiary of SIIC and Shanghai Huashi was a wholly-owned subsidiary of Shanghai Pharmaceutical Group, which in turn was owned as to 60% by SIIC Shanghai and was accounted for as a subsidiary of SIIC, which exercised the authority as a state-owned shareholder of SIIC Shanghai. As such, each of Shanghai Lingfeng Medical and Shanghai Huashi was an associate of SIIC and a connected person of the Company.

**9. Provision of project management services to Shanghai Pharmaceuticals Holding**

On 5 November 2020, 上實城開(上海)城市建設管理有限公司 (Shanghai Industrial Urban Development (Shanghai) City Construction and Management Company Limited*) ("**SIUD Shanghai Construction**"), an indirect subsidiary of the Company, entered into a construction project entrusted management agreement (the "**PMS Agreement 1**") with Shanghai Pharmaceuticals Holding following completion of a tender process organised by a bidding agency appointed by Shanghai Pharmaceuticals Holding. Pursuant to the PMS Agreement 1, SIUD Shanghai Construction agreed to provide Shanghai Pharmaceuticals Holding with project management services for the construction of Phase Two of the Shanghai Pharmaceutical Logistics Centre Project (上海醫藥物流中心綏德路二期項目), which was located in the Taopu area, Puxi, Shanghai with a total site area of approximately 51,348.62 square metres, for a total management fee of RMB10,000,000 (the "**PMS Project 1**").

The term of the PMS Agreement 1 started from the date of the PMS Agreement 1 and would expire on the date completion of the PMS Project 1 was filed with the relevant regulatory authority. Construction work for the PMS Project 1 was scheduled to be completed in approximately 36 months and project management work of the PMS Project 1 was scheduled to last for approximately 42 months.

Shanghai Pharmaceuticals Holding was a subsidiary of SIIC. As such, Shanghai Pharmaceuticals Holding was an associate of SIIC and a connected person of the Company.

### 10. Provision of project management services to Shanghai Biomedical Pharmaceuticals

On 19 November 2020, SIUD Shanghai Construction, an indirect subsidiary of the Company, entered into a construction project entrusted management agreement (the "**PMS Agreement 2**") with 上海上藥生物醫藥有限公司 (Shanghai Biomedical Pharmaceuticals Co., Ltd.*) ("**Shanghai Biomedical Pharmaceuticals**") following completion of a tender process organised by a bidding agency appointed by Shanghai Biomedical Pharmaceuticals. Pursuant to the PMS Agreement 2, SIUD Shanghai Construction agreed to provide Shanghai Biomedical Pharmaceuticals with project management services for the construction of Phase One of the Shanghai Pharmaceutical and Biomedical Industrial Hub (上藥生物醫藥產業基地建設項目(一期)), which was located at 92 Zhangjiang Road, Pudong New Area, Shanghai with a total construction area of approximately 126,253 square metres, for a total management fee of RMB20,000,000 (the "**PMS Project 2**").

The term of the PMS Agreement 2 started from the date of the PMS Agreement 2 and would expire on the date completion of the PMS Project 2 was filed with the relevant regulatory authority. Construction work for the PMS Project 2 was scheduled to complete in approximately 44 months and project management work of the PMS Project 2 was scheduled to last for approximately 50 months.

Shanghai Biomedical Pharmaceuticals was a wholly-owned subsidiary of Shanghai Pharmaceutical Group, which in turn was owned as to 60% by SIIC Shanghai and was accounted for as a subsidiary of SIIC, which exercised the authority as a state-owned shareholder of SIIC Shanghai. As such, Shanghai Biomedical Pharmaceuticals was an associate of SIIC and a connected person of the Company.

### 11. Formation of partnership

On 20 November 2020, SI Development (a non-wholly owned subsidiary of the Company, as a Limited Partner) entered into a partnership agreement with 四川川滬合作創新投資管理有限公司 (Sichuan Huchuan Cooperative Innovation Investment Management Co., Ltd.*) ("**Sichuan HCIIM**") (as the General Partner), 上海上實創業投資有限公司 (SIIC Shanghai Venture Capital Co., Ltd.*) ("**SIIC VC**") (as a Limited Partner) and 四川企業改革發展股權投資基金合伙企業(有限合伙) (Sichuan Enterprise Reform and Development Equity Investment Fund Partnership Enterprise (Limited Partnership)*) ("**Sichuan DEIF**") (as a Limited Partner) (collectively, the "**Partners**"), pursuant to which 四川川滬合作創新股權投資基金合伙企業(有限合伙) (Sichuan Chuanhu Cooperative Innovation Equity Investment Fund Partnership Enterprise (Limited Partnership)*) (the "**Partnership**") was formed to set up the Sichuan Shanghai Innovation Fund to invest principally in artificial intelligence industries, covering technical fields such as advanced artificial intelligence technologies, applications of artificial intelligence technologies and integration of artificial intelligence technologies in traditional industries.

The total capital contribution by all Partners to the Partnership shall be RMB610,000,000, being the initial subscription scale of the Sichuan Shanghai Innovation Fund. The capital contribution made by each of the Partners was as follows:

| Partner | Type | Capital contribution<br>*RMB* | Approximate percentage of interest in the Partnership<br>*(%)* |
|---|---|---|---|
| Sichuan HCIIM | General Partner | 10,000,000 | 1.64 |
| SI Development | Limited Partner | 100,000,000 | 16.39 |
| SIIC VC | Limited Partner | 200,000,000 | 32.79 |
| Sichuan DEIF | Limited Partner | 300,000,000 | 49.18 |
| | | 610,000,000 | 100.00 |

The Partnership shall appoint 上海國際創投股權投資基金管理有限公司 (Shanghai International Venture Capital Fund Management Co., Ltd.*) ("**Shanghai VCFM**") to provide management services to it and pay Shanghai VCFM for such services an annual management fee of not more than 2% of the total paid-up capital of the Partnership.

Shanghai VCFM shall be responsible for establishing an investment decision committee comprising five members. Each of SIIC and Sichuan Development Fund shall be entitled to appoint two members, while Shanghai VCFM shall be entitled to appoint one member. The investment decision committee shall be the highest governing body of the Partnership and responsible for reviewing and approving investment to be made by the Partnership.

SIIC exercised the authority as a state-owned shareholder of SIIC Shanghai, which indirectly held 100% equity interest in SIIC VC. SIIC VC was therefore an associate of SIIC and a connected person of the Company.

Besides, Sichuan HCIIM was owned as to 30% by Shanghai VCFM, which was an indirect non-wholly owned subsidiary of SIIC VC (which in turn was a wholly-owned subsidiary of SIIC). Accordingly, Sichuan HCIIM was also an associate of SIIC and a connected person of the Company.

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 as a whole.

## RELATED PARTY TRANSACTIONS

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

## MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

## DONATIONS

During the year, the Group made charitable and other donations amounting to HK$7,948,000.

## RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 44 to the consolidated financial statements.

* *For identification purposes only.*

## 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, 37.47% 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 2020.

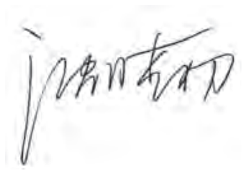
## CORPORATE GOVERNANCE

The corporate governance principles and practices adopted by the Company are set out in the Corporate Governance Report on pages 36 to 47 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, 30 March 2021

Deloitte. 德勤

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

## OPINION

We have audited the consolidated financial statements of Shanghai Industrial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 70 to 191, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 |
|---|---|
| ***Valuation of investment properties***<br>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.<br><br>As disclosed in note 14 to the consolidated financial statements, the fair values of the Group's investment properties amounted to HK$27,166,276,000 as at 31 December 2020 with a net decrease in fair value of investment properties of HK$185,972,000 recognised in the consolidated statement of profit or loss for the year then ended under the line item "other income, gains and losses".<br><br>The fair values of the Group's investment properties as at 31 December 2020 have been arrived at on the basis of valuations carried out by an independent qualified professional valuer (the "Valuer"). Details of the valuation techniques and significant unobservable inputs used in the valuations are disclosed in note 14 to the consolidated financial statements. The fair values are dependent on certain key inputs that involve judgment and estimation made by the management of the Group together with the Valuer, including, among other factors, reversionary yield derived from market rent and the transaction price of comparable properties in the same location and market price of comparable properties in the similar locations. | Our procedures in relation to the valuation of the investment properties included:<br><br>• Evaluating the competence, capabilities and objectivity of the Valuer;<br><br>• 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 inputs used in the valuations;<br><br>• Evaluating the reasonableness of the valuation methodologies by matching the nature of the properties and the availability of comparable market transactions and information against the valuation methodologies applied; and<br><br>• Assessing the appropriateness of key inputs used by the Valuer in the valuation models by referring, on a sample basis, to the comparable market transactions and other relevant information in the property market. |

## KEY AUDIT MATTERS (continued)

**Key audit matter**

***Assessment of the net realisable value ("NRV") of properties held-for-sale ("PHFS")***

We identified assessment of the NRV of the Group's PHFS with impairment indicators (the "Concerned PHFS") as a key audit matter due to the significant judgment and estimation associated.

As disclosed in note 27 to the consolidated financial statements, the Group has PHFS of HK$11,321,044,000 as at 31 December 2020, of which an amount of HK$2,265,540,000 is referring to as the Concerned PHFS. The impairment loss in respect of the Concerned PHFS amounting to HK$100,212,000 has been recognised in the consolidated statement of profit or loss for the year.

The management of the Group determined whether PHFS are with impairment indicators by reference to the cities and locations where the PHFS are located, the pre-sale status and other relevant market factors. The management of the Group assessed the NRV of the Concerned PHFS as at 31 December 2020 by reference to the valuation reports prepared by independent qualified professional valuers (the "Valuers"). The valuations are dependent on certain key inputs that involve judgment and estimation made by the management of the Group together with the Valuers including, among other factors, transaction price of comparable properties in the similar or same locations and adjustments made according to nature of each property and its specific location and conditions.

**How our audit addressed the key audit matter**

Our procedures in relation to the assessment of the NRV of the Concerned PHFS included:

- Understanding and evaluating the appropriateness of the process adopted by the management of the Group in identifying properties with impairment indicators from the Group's PHFS portfolio (i.e. the Concerned PHFS);

- Assessing the competence, capabilities and objectivity of the Valuers;

- Discussing with the Valuers on the valuation process to understand the performance of property markets, significant assumptions adopted and inputs used in the valuation models and the management's critical judgmental areas;

- Evaluating the reasonableness of the valuation methodologies by matching the nature of the properties and the availability of comparable market transactions and information against the valuation methodologies applied; and

- Assessing the reasonableness of the key inputs used by the valuers in the valuation models by referring, on a sample basis, to the available market information such as transaction prices of comparable properties and the factors supporting the adjustments made.

## 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 THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance are 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

We communicate with those charged with governance 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 those charged with governance 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, 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
30 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

| | NOTES | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **27,137,601** | 32,345,473 |
| Cost of sales | | **(17,319,822)** | (19,813,289) |
| Gross profit | | **9,817,779** | 12,532,184 |
| Net investment income | 6 | **572,752** | 622,310 |
| Other income, gains and losses | | **219,877** | 713,754 |
| Selling and distribution costs | | **(1,097,249)** | (1,079,532) |
| Administrative and other expenses | | **(2,273,393)** | (2,478,540) |
| Finance costs | 7 | **(1,854,385)** | (1,895,807) |
| Share of results of joint ventures | | **163,034** | 159,904 |
| Share of results of associates | | **644,888** | 331,928 |
| Gain on disposal of subsidiaries/interests in associates | 8 | **723,758** | – |
| Profit before taxation | | **6,917,061** | 8,906,201 |
| Income tax expense | 9 | **(2,993,918)** | (3,572,645) |
| Profit for the year | 10 | **3,923,143** | 5,333,556 |
| Profit for the year attributable to | | | |
| – Owners of the Company | | **2,218,877** | 3,349,531 |
| – Non-controlling interests | | **1,704,266** | 1,984,025 |
| | | **3,923,143** | 5,333,556 |
| | | **HK$** | HK$ |
| Earnings per share | 13 | | |
| – Basic | | **2.014** | 3.081 |
| – Diluted | | **2.014** | 3.081 |

The notes on pages 80 to 191 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 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Profit for the year | **3,923,143** | 5,333,556 |
| **Other comprehensive income (expense)** | | |
| ***Items that may be subsequently reclassified to profit or loss*** | | |
| Exchange differences arising on translation of foreign operations | | |
| – subsidiaries | **4,776,576** | (1,141,887) |
| – joint ventures | **320,327** | (48,900) |
| – associates | **344,292** | (86,663) |
| ***Items 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 | **(13,953)** | 3,526 |
| Fair value loss on revaluation of properties, net of tax | **–** | (13,813) |
| Other comprehensive income (expense) for the year | **5,427,242** | (1,287,737) |
| Total comprehensive income for the year | **9,350,385** | 4,045,819 |
| Total comprehensive income for the year attributable to | | |
| – Owners of the Company | **4,862,737** | 2,640,414 |
| – Non-controlling interests | **4,487,648** | 1,405,405 |
| | **9,350,385** | 4,045,819 |

The notes on pages 80 to 191 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

| | NOTES | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Non-Current Assets | | | |
| Investment properties | 14 | **27,166,276** | 22,844,587 |
| Property, plant and equipment | 15 | **5,763,753** | 5,617,784 |
| Right-of-use assets | 16 | **535,198** | 407,482 |
| Toll road operating rights | 17 | **7,132,190** | 7,480,543 |
| Goodwill | 18 | **810,832** | 771,093 |
| Other intangible assets | 19 | **7,974,255** | 7,628,528 |
| Interests in joint ventures | 20 | **5,475,401** | 3,252,546 |
| Interests in associates | 21 | **6,899,413** | 6,416,054 |
| Investments | 22 | **732,031** | 696,027 |
| Receivables under service concession arrangements – non-current portion | 23 | **23,159,535** | 19,456,025 |
| Deposits paid on acquisition of non-current assets | 24 | **3,885,676** | 1,584,289 |
| Other non-current receivables | 25 | **–** | 9,239 |
| Deferred tax assets | 26 | **396,040** | 502,829 |
| | | **89,930,600** | 76,667,026 |
| Current Assets | | | |
| Inventories | 27 | **59,557,443** | 56,706,001 |
| Trade and other receivables | 28 | **13,329,541** | 9,446,194 |
| Contract assets | 29 | **403,204** | 600,758 |
| Investments | 22 | **632,753** | 810,732 |
| Receivables under service concession arrangements – current portion | 23 | **819,316** | 547,535 |
| Prepaid taxation | | **577,240** | 612,444 |
| Pledged bank deposits | 30 | **806,864** | 1,292,335 |
| Short-term bank deposits | 30 | **142,382** | 128,365 |
| Bank balances and cash | 30 | **28,354,355** | 27,904,781 |
| | | **104,623,098** | 98,049,145 |
| Assets classified as held for sale | 38 | **328,672** | 226,119 |
| | | **104,951,770** | 98,275,264 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

| | NOTES | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Current Liabilities | | | |
| Trade and other payables | 31 | **21,521,708** | 19,503,774 |
| Lease liabilities – current portion | 34 | **113,239** | 100,762 |
| Contract liabilities | 32 | **21,695,922** | 14,803,392 |
| Taxation payable | | **3,410,431** | 4,335,119 |
| Bank and other borrowings | 33 | **13,755,345** | 19,443,750 |
| | | **60,496,645** | 58,186,797 |
| Liabilities associated with assets classified as held for sale | 38 | **180,428** | 174,715 |
| | | **60,677,073** | 58,361,512 |
| Net Current Assets | | **44,274,697** | 39,913,752 |
| Total Assets less Current Liabilities | | **134,205,297** | 116,580,778 |
| Capital and Reserves | | | |
| Share capital | 35 | **13,649,839** | 13,649,839 |
| Reserves | | **30,028,927** | 26,589,973 |
| Equity attributable to owners of the Company | | **43,678,766** | 40,239,812 |
| Non-controlling interests | | **38,388,617** | 32,564,748 |
| Total Equity | | **82,067,383** | 72,804,560 |
| Non-Current Liabilities | | | |
| Provision for major overhauls | 23 | **88,160** | 84,263 |
| Bank and other borrowings | 33 | **43,186,801** | 34,983,838 |
| Deferred tax liabilities | 26 | **8,545,117** | 8,446,087 |
| Lease liabilities – non-current portion | 34 | **317,836** | 262,030 |
| | | **52,137,914** | 43,776,218 |
| Total Equity and Non-Current Liabilities | | **134,205,297** | 116,580,778 |

The notes on pages 80 to 191 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 70 to 191 were approved and authorised for issue by the board of directors on 30 March 2021 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 2020

| | Attributable to owners of the Company | | | | | | | | | Attributable to non-controlling interests | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital 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 2019 | 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 |
| Profit for the year | – | – | – | – | – | – | – | 3,349,531 | 3,349,531 | – | 1,984,025 | 1,984,025 | 5,333,556 |
| Exchange differences arising on translation of foreign operations | | | | | | | | | | | | | |
| – subsidiaries | – | – | – | – | – | (569,133) | – | – | (569,133) | – | (572,754) | (572,754) | (1,141,887) |
| – joint ventures | – | – | – | – | – | (48,900) | – | – | (48,900) | – | – | – | (48,900) |
| – associates | – | – | – | – | – | (86,663) | – | – | (86,663) | – | – | – | (86,663) |
| Fair value change on equity investments at fair value through other comprehensive income held by subsidiaries, net of tax | – | – | – | – | 2,121 | – | – | – | 2,121 | – | 1,405 | 1,405 | 3,526 |
| Revaluation of properties upon inception of sublease arrangement | – | – | – | – | (6,542) | – | – | – | (6,542) | – | (7,271) | (7,271) | (13,813) |
| Total comprehensive (expense) income for the year | – | – | – | – | (4,421) | (704,696) | – | 3,349,531 | 2,640,414 | – | 1,405,405 | 1,405,405 | 4,045,819 |
| Transfers | – | – | – | – | – | – | 258,287 | (258,287) | – | – | – | – | – |
| Transfer upon liquidation of a subsidiary | – | – | – | – | – | (3,783) | – | 3,783 | – | – | – | – | – |
| Reduction of share capital of a subsidiary | – | – | – | – | – | – | – | – | – | – | (18,911) | (18,911) | (18,911) |
| Capital contributions by non-controlling interests | – | – | – | – | – | – | – | – | – | – | 333,283 | 333,283 | 333,283 |
| Acquisition of additional interest in a listed subsidiary | – | – | 38,394 | – | – | – | – | – | 38,394 | – | (91,436) | (91,436) | (53,042) |
| Acquisition of additional interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | (5,360) | (5,360) | (5,360) |
| Return of share capital to non-controlling interests upon deregistration of a subsidiary | – | – | – | – | – | – | – | – | – | – | (1,671) | (1,671) | (1,671) |
| Repurchase of their own shares by listed subsidiaries | – | – | (4,666) | – | – | – | – | – | (4,666) | – | (5,146) | (5,146) | (9,812) |
| Partial disposal of a subsidiary without loss of control | – | – | – | – | – | – | – | – | – | – | 27,226 | 27,226 | 27,226 |
| Dividends recognised as distribution (note 12) | – | – | – | – | – | – | – | (1,663,434) | (1,663,434) | – | – | – | (1,663,434) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | (450,590) | (450,590) | (450,590) |
| Partial disposal of a listed subsidiary without loss of control (Note v) | – | – | (2,046,192) | – | – | – | – | – | (2,046,192) | – | 3,144,276 | 3,144,276 | 1,098,084 |
| At 31 December 2019 | 13,649,839 | 54,855 | (324,293) | (5,912,547) | 257,987 | (725,875) | 2,460,543 | 30,779,303 | 40,239,812 | 31,892 | 32,532,856 | 32,564,748 | 72,804,560 |

| | Attributable to owners of the Company | | | | | | | | | Attributable to non-controlling interests | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Other revaluation reserve HK$'000 (Note i) | Other reserve HK$'000 (Note ii) | Merger reserve HK$'000 (Note iii) | Investment revaluation reserves HK$'000 | Translation reserve HK$'000 | PRC statutory reserves HK$'000 (Note iv) | Retained profits HK$'000 | Sub-total HK$'000 | Perpetual bond HK$'000 (Note vi) | 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 2020 | 13,649,839 | 54,855 | (324,293) | (5,912,547) | 257,987 | (725,875) | 2,460,543 | 30,779,303 | 40,239,812 | – | 31,892 | 32,532,856 | 32,564,748 | 72,804,560 |
| Profit for the year | – | – | – | – | – | – | – | 2,218,877 | 2,218,877 | – | – | 1,704,266 | 1,704,266 | 3,923,143 |
| Exchange differences arising on translation of foreign operations | | | | | | | | | | | | | | |
| – subsidiaries | – | – | – | – | – | 1,986,173 | – | – | 1,986,173 | – | – | 2,790,403 | 2,790,403 | 4,776,576 |
| – joint ventures | – | – | – | – | – | 320,327 | – | – | 320,327 | – | – | – | – | 320,327 |
| – associates | – | – | – | – | – | 344,292 | – | – | 344,292 | – | – | – | – | 344,292 |
| Fair value change on equity investments at fair value through other comprehensive income held by subsidiaries, net of tax | – | – | – | – | (6,932) | – | – | – | (6,932) | – | – | (7,021) | (7,021) | (13,953) |
| Total comprehensive (expense) income for the year | – | – | – | – | (6,932) | 2,650,792 | – | 2,218,877 | 4,862,737 | – | – | 4,487,648 | 4,487,648 | 9,350,385 |
| Transfers | – | – | – | – | – | – | 240,949 | (240,949) | – | – | – | – | – | – |
| Transfer upon disposal of a subsidiary | – | – | – | – | – | (6,062) | – | 6,062 | – | – | – | (92,577) | (92,577) | (92,577) |
| Capital contributions from non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | 618,908 | 618,908 | 618,908 |
| Acquisition of additional interest in a listed subsidiary | – | – | (32,976) | – | – | – | – | – | (32,976) | – | – | (95,458) | (95,458) | (128,434) |
| Acquisition of additional interests in subsidiaries (Note vii) | – | – | 85,521 | – | – | – | – | – | 85,521 | – | – | (102,916) | (102,916) | (17,395) |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | 4,318 | 4,318 | 4,318 |
| Dividends recognised as distribution (Note 12) | – | – | – | – | – | – | – | (963,269) | (963,269) | – | – | – | – | (963,269) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (699,989) | (699,989) | (699,989) |
| Partial disposal of a listed subsidiary without loss of control (Note v) | – | – | (514,849) | – | – | – | – | – | (514,849) | – | – | 673,582 | 673,582 | 158,733 |
| Release upon liquidation of a subsidiary | – | – | – | – | – | – | (1,287) | 753 | (534) | – | – | (1,705) | (1,705) | (2,239) |
| Issue of perpetual bond | – | – | – | – | – | – | – | – | – | 1,096,852 | – | – | 1,096,852 | 1,096,852 |
| Accrual of interest to holder of perpetual bond | – | – | – | – | – | – | – | (29,568) | (29,568) | 60,840 | – | (31,272) | 29,568 | – |
| Interest paid to holder of perpetual bond | – | – | – | – | – | – | – | – | – | (60,840) | – | – | (60,840) | (60,840) |
| Lapse of share options (note 36) | – | – | – | – | – | – | – | 31,892 | 31,892 | – | (31,892) | – | (31,892) | – |
| Disposal of subsidiaries | – | – | – | – | – | – | (182) | 182 | – | – | – | (1,630) | (1,630) | (1,630) |
| At 31 December 2020 | 13,649,839 | 54,855 | (786,597) | (5,912,547) | 251,055 | 1,918,855 | 2,700,023 | 31,803,283 | 43,678,766 | 1,096,852 | – | 37,291,765 | 38,388,617 | 82,067,383 |

The notes on pages 80 to 191 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 was recorded in other reserve.

(iii) Merger reserve represents the difference between 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) During the year ended 31 December 2020, the Group distributed 217,442,320 shares (2019: 1,087,211,600 shares) in a non-wholly owned listed subsidiary, namely Shanghai Industrial Urban Development Group Limited ("SI Urban Development") through distribution in specie as disclosed in note 12. The difference of HK$514,849,000 (2019: HK$2,046,912,000) between the fair value of the interim dividend and the increase in carrying amount of the non-controlling interests has been recognised directly in equity under other reserve. Immediately after the distribution in specie, the Group's equity interest in SI Urban Development decreased from 47.41% to 42.89% (2019: from 69.96% to 47.41%) and the Group accounted for this transaction as an equity transaction.

(vi) On 2 January 2020, Shanghai Industrial Development Co., Ltd. ("SI Development"), a non-wholly owned listed subsidiary of the Group issued a 5.5% perpetual bond with par value of RMB1 billion (equivalent to HK$1,096,852,000) to an independent third party (the "Perpetual Bondholder").

The Perpetual Bondholder is entitled to an interest of 5.5% per annum in the first 1.5 years (the "initial investment period") after issuance. Upon the end of the initial investment period, SI Development can elect to extend repayment of the principal for another year once every year indefinitely and the interest rate will be reset with reference to People's Bank of China Benchmark Lending Rate upon each deferral of interest payment and capped at 9%. The interest payments fall due quarterly. Unless SI Development declares dividend to shareholders or reduces the registered capital within 12 months before the interest due date, SI Development can elect to defer the payment of all current or deferred interests to the next payment date.

According to the above-mentioned terms, the issued perpetual bond has no maturity date. SI Development has the right to defer interest payment and the option for redemption of perpetual bond. SI Development has no obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer, so the perpetual bond is classified as an equity instrument.

(vii) During the year ended 31 December 2020, part of the contribution from non-controlling interests upon additional capital injection in subsidiaries of RMB216,491,000 (equivalent to HK$243,303,000) was settled through the transfer of operating concession rights and an RMB96,763,000 (equivalent to HK$108,747,000) was offset against outstanding payables to the non-controlling interests.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **6,917,061** | 8,906,201 |
| Adjustments for: | | |
| Amortisation of other intangible assets | **360,077** | 358,457 |
| Amortisation of toll road operating rights | **644,840** | 797,114 |
| Change in fair value of financial assets at fair value through profit or loss ("FVTPL") | **(83,317)** | (50,662) |
| Depreciation of property, plant and equipment | **524,767** | 533,403 |
| Depreciation of right-of-use assets | **94,288** | 72,511 |
| Dividend income from equity investments | **(10,241)** | (30,685) |
| Decrease (increase) in fair value of investment properties | **185,972** | (221,809) |
| Finance costs | **1,854,385** | 1,895,807 |
| Gain on disposal of subsidiaries/interests in associates | **(723,758)** | – |
| Impairment loss on trade receivables | **100,647** | 28,847 |
| Impairment loss (reversal of impairment loss) on other receivables | **89,842** | (2,997) |
| Impairment loss on properties held for sale | **100,212** | 145,219 |
| Impairment loss on properties under development held for sale | **23,739** | 145,414 |
| Impairment loss on goodwill | **79,555** | 15,567 |
| Impairment loss on a toll road operating right | **322,123** | – |
| Interest income | **(477,879)** | (540,198) |
| Net gain on disposal/written off of property, plant and equipment | **(4,396)** | (5,571) |
| Provision for major overhauls | **1,125** | 1,005 |
| Reversal of impairment loss on financial assets | **–** | (10,061) |
| Reversal of impairment loss on inventories, other than properties | **(1,551)** | (4,352) |
| Share of results of associates | **(644,888)** | (331,928) |
| Share of results of joint ventures | **(163,034)** | (159,904) |
| Operating cash flows before movements in working capital | **9,189,569** | 11,541,378 |
| Increase in inventories | **(1,016,449)** | (2,173,682) |
| Decrease in financial assets at FVTPL | **261,551** | 134,744 |
| Increase in trade and other receivables | **(2,143,781)** | (1,414,513) |
| Increase in receivables under service concession arrangements | **(1,990,653)** | (1,989,736) |
| Decrease in contract assets | **222,140** | 302,906 |
| Increase (decrease) in contract liabilities | **5,650,285** | (211,030) |
| Increase in trade and other payables | **991,668** | 2,443,072 |
| (Decrease) increase in provision for major overhauls | **(2,389)** | 569 |
| Cash generated from operations | **11,161,941** | 8,633,708 |
| PRC Enterprise Income Tax ("EIT") paid | **(2,005,531)** | (2,154,245) |
| PRC Land Appreciation Tax ("LAT") paid | **(1,989,577)** | (1,545,772) |
| Hong Kong Profits Tax paid | **(198,711)** | (49,074) |
| NET CASH FROM OPERATING ACTIVITIES | **6,968,122** | 4,884,617 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

| | NOTES | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Payment for acquisition of land parcels | 24 | **(2,293,709)** | (600,254) |
| Capital injection in joint ventures | | **(1,804,854)** | (111,326) |
| Advance to related parties | | **(1,654,653)** | (369,766) |
| Prepayment on acquisition of an associate | 24 | **(484,607)** | – |
| Purchase of operating concessions | | **(225,495)** | (14,064) |
| Purchase of property, plant and equipment | | **(219,545)** | (491,860) |
| Subsequent expenditures on investment properties | | **(185,517)** | (53,341) |
| Additions to toll road operating rights | | **(184,484)** | – |
| Capital injection into associates | | **(171,636)** | (122,492) |
| Prepayment for acquisition of service concession arrangements | 24 | **(102,350)** | (512,531) |
| Deposits paid on acquisition of property, plant and equipment/ intangible assets | 24 | **(87,134)** | (33,118) |
| Purchase of investments | | **(56,192)** | (3,403) |
| Acquisition of subsidiaries | 37 | **(20,883)** | – |
| Proceeds from disposal of subsidiaries | 39 | **624,117** | 180,122 |
| Interest received | | **479,799** | 536,192 |
| Decrease (increase) in restricted/pledged bank deposits/short-term bank deposits | | **471,343** | (448,521) |
| Proceeds from disposal of interests in associates | | **467,644** | – |
| Dividends received from associates | | **202,032** | 208,957 |
| Repayment from related parties | | **153,006** | – |
| Proceeds from disposal of property, plant and equipment | | **84,515** | 89,578 |
| Dividends received from joint ventures | | **65,360** | 75,140 |
| Proceeds from disposal of equity instrument of fair value through other comprehensive income | | **36,853** | – |
| Proceeds from refund of capital/disposal of investments | | **–** | 14,066 |
| Dividends received from equity investments | | **10,241** | 30,685 |
| Proceeds from refund of capital of equity instruments at fair value through other comprehensive income | | **7,741** | – |
| Deposit paid on acquisition of a subsidiary | 24 | **–** | (211,913) |
| Settlement of consideration payables | | **–** | (62,218) |
| Acquisition of associates | | **–** | (32,004) |
| Proceeds from capital reduction from joint ventures | | **–** | 250,585 |
| Proceeds from capital reduction from an associate | | **–** | 128,402 |
| NET CASH USED IN INVESTING ACTIVITIES | | **(4,888,408)** | (1,553,084) |

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Repayment of bank and other borrowings | **(27,035,987)** | (17,707,530) |
| Interest paid | **(2,867,205)** | (2,924,920) |
| Dividends paid | **(804,536)** | (565,350) |
| Dividends paid to non-controlling interests | **(699,989)** | (450,590) |
| Repayments of lease liabilities | **(120,008)** | (89,248) |
| Acquisition of additional interest in a listed subsidiary | **(128,434)** | (53,042) |
| Interest paid to holder of perpetual bond | **(60,840)** | – |
| Interest paid on lease liabilities | **(17,556)** | (8,579) |
| Acquisition of additional interests in subsidiaries | **(17,395)** | (5,360) |
| Distribution after liquidation of a subsidiary | **(2,239)** | – |
| Bank and other borrowings raised | **26,928,128** | 21,859,536 |
| Proceeds from issuance of perpetual bond, net of issue cost | **1,096,852** | – |
| Advances from (repayment to) related parties | **316,167** | (3,968) |
| Capital contributions by non-controlling interests | **266,858** | 333,283 |
| Distribution to a non-controlling shareholder after reduction of share capital of a subsidiary | **–** | (18,911) |
| Repurchase of their own shares by listed subsidiaries | **–** | (9,812) |
| Return of share capital to non-controlling interests upon deregistration of a subsidiary | **–** | (1,671) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | **(3,146,184)** | 353,838 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(1,066,470)** | 3,685,371 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | **27,904,781** | 25,132,470 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **1,516,044** | (913,060) |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash | **28,354,355** | 27,904,781 |

The notes on pages 80 to 191 are an integral part of these consolidated financial statements.

## 1. GENERAL INFORMATION

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 48, 49 and 50, respectively.

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

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

### *Amendments to HKFRSs that are mandatorily effective for the current year*

In the current year, the Group has applied the "Amendments to References to the Conceptual Framework" in HKFRSs and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

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

### 2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no significant impact on the consolidated financial statements.

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

### *Amendments to HKFRSs that are mandatorily effective for the current year (continued)*

### 2.2 Impacts on application of Amendments to HKFRS 3 "Definition of a Business"

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements but may impact future periods should the Group make any acquisition.

### *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 17 | Insurance Contracts and the related Amendments[1] |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions[4] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2[5] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1] |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018 – 2020[2] |

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs 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.

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

***New and amendments to HKFRSs in issue but not yet effective (continued)***

**Amendments to HKFRS 3 "Reference to the Conceptual Framework"**

The amendments:

- update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "Conceptual Framework") instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or HK(IFRIC)-Int 21 "Levies", an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

**Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2"**

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2" relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 "Financial Instruments: Disclosures" to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16; and

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several Hong Kong Interbank Offered Rate ("HIBOR") bank and other borrowings which will be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

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

***New and amendments to HKFRSs in issue but not yet effective (continued)***

**Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)"**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

**Amendments to HKFRSs "Annual Improvements to HKFRSs 2018-2020"**

The annual improvements make amendments to the following standards.

***HKFRS 9 "Financial Instruments"***

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

***HKFRS 16 "Leases"***

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material of such information is reasonably expected to influence decisions made by primary users. 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 accounted for in accordance with HKFRS 16, 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 significant accounting policies are set out below.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies

***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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Basis of consolidation (continued)***

*Changes in the Group's interests in existing 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 or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

***Business combinations***

*Optional concentration test*

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

*Asset acquisitions*

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Business combinations (continued)***

*Asset acquisitions (continued)*

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the "Framework for the Preparation and Presentation of Financial Statements" (replaced by the "Conceptual Framework for Financial Reporting" issued in October 2010).

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits", respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payments" at the acquisition date (see the accounting policy below);

- 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; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

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

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Business combinations (continued)***

*Asset acquisitions (continued)*

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the 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 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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

***Merger Accounting for business combination involving businesses under common control***

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

The consolidated financial statements incorporate the financial statements items of the combining 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 beginning of the previous reporting period or when they first came under common control, whichever is shorter.

***Goodwill***

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Goodwill (continued)***

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 "Non-current Assets Held for Sale and Discontinued Operations". Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 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 is not allocated to any assets, including goodwill, that 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, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Non-current assets held for sale***

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of HKFRS 9 continue to be measured in accordance with the accounting policies as set out in respective sections.

When there is a delay caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal groups), an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale.

***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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Service concession arrangements (continued)***

*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 waste water 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 waste water treatment, water supply and waste incineration plants are recognised and measured in accordance with the policy set out for "Provisions" below.

***Revenue from contracts with customers***

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Revenue from contracts with customers (continued)***

*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.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

*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.

*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.

*Contract costs*

*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 (mainly 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Leases***

*Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*The Group as a lessee*

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

*Applies practical expedient and includes non-lease components in right-of-use assets/lease liabilities*

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to leases of warehouses, office premises and department units that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

*Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Leases (continued)***

*The Group as a lessee (continued)*

*Right-of-use assets (continued)*

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property and inventory are presented within "investment properties", "properties under development for sale" and "properties held for sale" respectively.

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- amounts expected to be paid under residual value guarantees; and
- payments of penalties for terminating a lease, of the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Leases (continued)***

*The Group as a lessee (continued)*

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

*The Group as a lessor*

*Classification and measurement of leases*

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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 asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income which is derived from the Group's ordinary course of business is presented as revenue.

*Allocation of consideration to components of a contract*

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

*Refundable rental deposits*

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

*Sublease*

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or an operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Leases (continued)***

*The Group as a lessor (continued)*

*Lease modification*

Changes in considerations of lease contracts that were not part of the original terms and conditions, are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

***Investment properties***

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

Investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

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

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

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

***Property, plant and equipment***

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). Property, plant and equipment 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 any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Group and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Property, plant and equipment (continued)***

*Ownership interests in leasehold land and building*

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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.

***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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Foreign currencies (continued)***

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.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

***Government grants***

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

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

Government grants related to income 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. Such grants are presented under “other income”.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Employee benefits***

*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.

*Termination benefits*

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

*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.

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

*Taxation (continued)*

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 which is always presumed to be recovered entirely through sales.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities. For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Temporary difference arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modification that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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 to the same taxable entity by the same taxation authority.

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 cost 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Intangible assets (continued)***

*Research expenditure*

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

*Toll road operating rights*

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

*Operating concessions*

Operating concessions represent the rights to operate waste water 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.

*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 on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill***

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, and intangible assets with finite useful lives 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 they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Impairment on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill (continued)***

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.

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) 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 a cash-generating unit or a group of cash-generating units) 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 which are intended to be sold upon completion of development and properties for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of HKFRS 16, properties under development held for sale and properties for sale are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development held for sale are transferred to properties for sale upon completion.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Inventories (continued)***

*Transfer from inventories to investment properties carried at fair value*

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

*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.

***Financial instruments***

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

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. 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Financial instruments (continued)***

*Financial assets*

*Classification and subsequent measurement of financial assets*

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 fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at 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 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.

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Financial instruments (continued)***

*Financial assets (continued)*

*Classification and subsequent measurement of financial assets (continued)*

(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 other comprehensive income ("OCI") and accumulated in the 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.

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 at 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".

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9*

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, receivables under service concession arrangements, pledged bank deposits, short-term bank deposits and bank balances and cash) and other items (including lease receivables, contract assets and financial guarantee contracts) which are subject to impairment assessment under HKFRS 9. 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, contract assets and lease receivables.

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, in which case 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Financial instruments (continued)***

*Financial assets (continued)*

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)*

(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.

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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Financial instruments (continued)***

*Financial assets (continued)*

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)*

(i) Significant increase in credit risk (continued)

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 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, 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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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. 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Financial instruments (continued)***

*Financial assets (continued)*

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)*

(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.

The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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 lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

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.

Lifetime ECL for certain trade receivables and contract assets are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Financial instruments (continued)***

*Financial assets (continued)*

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)*

(v) Measurement and recognition of ECL (continued)

Except for financial guarantee contracts, 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, lease receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

*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 a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, 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.

*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 Company are recognised at the proceeds received, net of direct issue costs.

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

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, issue or cancellation of the Company's own equity instruments.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Financial instruments (continued)***

*Financial liabilities and equity instruments (continued)*

*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 and bank and other borrowings, 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.

*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; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

***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.

*Provisions for maintenance of infrastructure under service concession arrangements*

The Group has contractual obligations that it must fulfill as a condition of its licence to maintain the infrastructure to a specified level of serviceability during the service concession arrangements. These contractual obligations to maintain infrastructure, except for any upgrade element, is recognised and measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of each reporting period in the consolidated statement of financial position.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

***Perpetual bonds***

Perpetual bonds issued by the Group are classified as equity instruments as they do not include the contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial asset or financial liability with another entity under conditions that are potentially unfavourable to the issuer.

The interest expenses of perpetual bonds classified as equity instruments are treated as profit distribution of the Group. The repurchase or cancellation of these instruments is treated as change in equity. The related transaction costs are deducted from equity.

***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.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3.2, 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 non-wholly owned listed subsidiaries***

Note 48 describes that the Group held less than a majority of ownership interest and voting rights in its non-wholly owned listed subsidiaries as at 31 December 2020.

The directors of the Company assessed whether or not the Group has control over SIIC Environment Holdings Ltd ("SIIC Environment"), SI Urban Development and SI Development throughout the year ended 31 December 2020, based on whether the Group has the practical ability to direct the relevant activities of these non-wholly owned listed subsidiaries unilaterally by considering the Group's absolute size of holding in them, 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 these non-wholly owned listed subsidiaries. After their assessments, the directors of the Company concluded that the Group has the current ability to direct the relevant activities of these non-wholly owned listed subsidiaries and affect the amount of the Group's return. Therefore, the Group has control over these non-wholly owned listed subsidiaries throughout the whole year ended 31 December 2020.

***Deferred taxation on investment properties***

For the purpose 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.

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

### Key sources of estimation uncertainty

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

***Fair values of investment properties***

The fair values of the investment properties are determined by reference to valuations conducted on these properties by independent property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions as set out in note 14. In relying on the valuation reports prepared by the independent professional qualified valuers, the directors of the Company have exercised their judgment and are satisfied that the method of valuation is reflective of the current market conditions. Whilst the Group considers valuations of the Group's investment properties are the best estimates, the ongoing Covid-19 pandemic has resulted in greater market volatility depending on how the Covid-19 pandemic may progress and evolve, which have led to higher degree of uncertainties in respect of the valuations in the current year. Changes to these assumptions, including the potential risk of any market violation, policy, geopolitical and social changes or other unexpected incidents as a result of change in macroeconomic environment and travel restrictions within the PRC, would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

Investment properties in the consolidated statement of financial position at 31 December 2020 are carried at their fair values of approximately HK$27,166 million (2019: HK$22,845 million).

***Estimated impairment of goodwill***

Determining whether goodwill is impaired requires 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 requires 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 2020, the carrying amount of goodwill was approximately HK$811 million (2019: HK$771 million). During the year ended 31 December 2020, an impairment loss of approximately HK$80 million (2019: HK$16 million) was recognised on goodwill in consumer products segment. Details of the impairment test are set out in note 18.

***Estimated impairment of toll road operating right***

Toll road operating rights are stated at costs less accumulated amortisation and impairment, if any. In determining whether an asset is required to be impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of the asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts. Furthermore, the cash flows projections, growth rate and discount rate are subject to key assumptions as stated in note 17.

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

### Key sources of estimation uncertainty (continued)

***Estimated impairment of toll road operating right (continued)***

As at 31 December 2020, the carrying amount of toll road operating right amount to approximately HK$7,132 million (2019: HK$7,481 million), after recognising the impairment losses of approximately HK$322 million (2019: nil) in respect of a toll road operating right for the current year. Details of the impairment are disclosed in note 17.

***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 2020, the aggregate carrying amount of properties under development and properties held for sale was approximately HK$57,715 million (2019: HK$55,157 million).

During the current year, the management of the Group identified certain properties held for sale with impairment indicators (the "Concerned PHFS") by reference to the cities and locations where the PHFS are located, the pre-sale status and other relevant market factors. The management of the Group assessed the net realisable values of the Concerned PHFS as at 31 December 2020, with reference to the valuation reports prepared by professional valuers (the "Valuers"). The valuations are dependent on certain key inputs that involve judgment and estimation made by the management of the Group together with the Valuers including, among other factors, transaction price of comparable properties in the similar or same locations and adjustments made according to nature of each property and its specific location and conditions. As disclosed in note 27, the Group has PHFS of approximately HK$11,321 million (2019: HK$12,355 million) as at 31 December 2020, of which an amount of approximately HK$2,266 million (2019: HK$2,465 million) is referring to as the Concerned PHFS. The impairment loss in respect of the Concerned PHFS amounting to approximately HK$100 million (2019: HK$145 million) has been recognised in the consolidated statement of profit or loss for the year.

***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 2020, the carrying amount of LAT provision (included in taxation payable) was approximately HK$1,915 million (2019: HK$2,410 million).

## 4. 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 shared characteristics including historical credit loss experience, industry specific factors to the debtors and general economic conditions. 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 53(b), 28 and 29.

***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 14 and 53(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.

## 5. REVENUE

### (i) Disaggregation of revenue

| | For the year ended 31 December 2020 | | | |
|---|---|---|---|---|
| | 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 | – | 10,799,110 | – | 10,799,110 |
| Sales of goods | – | – | 3,366,066 | 3,366,066 |
| Income from infrastructure facilities, other than financial income from service concession arrangements | | | | |
| – toll road operation | 1,489,717 | – | – | 1,489,717 |
| – water-related services | | | | |
| – operating, maintenance and other income | 3,247,442 | – | – | 3,247,442 |
| – construction income from construction contracts | 2,604,435 | – | – | 2,604,435 |
| Ancillary facilities, property services and management income | – | 3,124,689 | – | 3,124,689 |
| Income from hotel operations | – | 208,527 | – | 208,527 |
| **Revenue from goods and services** | 7,341,594 | 14,132,326 | 3,366,066 | 24,839,986 |
| **Financial income from service concession arrangements** | 1,196,894 | – | – | 1,196,894 |
| **Rental income** | – | 1,100,721 | – | 1,100,721 |
| **Total** | 8,538,488 | 15,233,047 | 3,366,066 | 27,137,601 |
| **Timing of revenue recognition of revenue from goods and services** | | | | |
| A point in time | 3,053,109 | 10,799,110 | 3,366,066 | 17,218,285 |
| Overtime | 4,288,485 | 3,333,216 | – | 7,621,701 |
| | 7,341,594 | 14,132,326 | 3,366,066 | 24,839,986 |

## 5. REVENUE (continued)

### (i) Disaggregation of revenue (continued)

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | 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 | – | 14,488,915 | – | 14,488,915 |
| Sales of goods | – | – | 4,601,886 | 4,601,886 |
| Income from infrastructure facilities, other than financial income from service concession arrangements | | | | |
| – toll road operation | 2,333,386 | – | – | 2,333,386 |
| – water-related services | | | | |
| – operating, maintenance and other income | 2,909,526 | – | – | 2,909,526 |
| – construction income from construction contracts | 2,778,736 | – | – | 2,778,736 |
| Ancillary facilities, property services and management income | – | 2,587,445 | – | 2,587,445 |
| Income from hotel operations | – | 290,232 | – | 290,232 |
| **Revenue from goods and services** | 8,021,648 | 17,366,592 | 4,601,886 | 29,990,126 |
| **Financial income from service concession arrangements** | 1,072,290 | – | – | 1,072,290 |
| **Rental income** | – | 1,283,057 | – | 1,283,057 |
| **Total** | 9,093,938 | 18,649,649 | 4,601,886 | 32,345,473 |
| **Timing of revenue recognition of revenue from goods and services** | | | | |
| A point in time | 2,722,035 | 14,488,915 | 4,601,886 | 21,812,836 |
| Overtime | 5,299,613 | 2,877,677 | – | 8,177,290 |
| | 8,021,648 | 17,366,592 | 4,601,886 | 29,990,126 |

## 5. REVENUE (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 businesses, comprising operating and maintenance income from service concession arrangements and other service income and construction 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 arrangements 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.

Construction service income is recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these construction services based on the stage of completion of the contract using the input method.

***Real Estate***

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

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 contract liabilities.

Revenue from provision of ancillary facilities and property management services 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 hotels' facilities, products and services. The customers simultaneously receive and consume the benefits provided by the Group in running the hotels.

Revenue from rental income is recognised overtime on a straight-line basis over the lease term.

***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 titles 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.

## 5. REVENUE (continued)

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

The Group has elected to apply the practical expedient under HKFRS 15 for not to disclose the information of remaining performance obligations which are part of a contract that has an original expected duration of one year or less; or from satisfaction of which the Group recognises revenue in the amount, which the Group has the right to invoice, that corresponds directly with the value to the customers of the Group's performance completed to date. The transaction price allocated to the remaining performance obligations where the aforementioned practical expedients are not applicable as at 31 December 2020 was HK$10,157,541,000 (2019: HK$14,791,004,000), which relates to contracts of sales of properties. This amount represents the revenue expected to be recognised by the Group in the future when it satisfies the remaining performance obligations and around 73% (2019: 47%) is expected to be recognised as revenue within one year.

### (iv) Leases

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Total revenue arising from operating leases: | | |
| Lease payments that are fixed | **1,100,721** | 1,283,057 |

## 6. NET INVESTMENT INCOME

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Interest on bank deposits | **310,954** | 420,507 |
| Interest on financial assets at FVTPL | **7,303** | 15,939 |
| Other interest income | **159,622** | 103,752 |
| Total interest income | **477,879** | 540,198 |
| Change in fair value of financial assets at FVTPL | **83,317** | 50,662 |
| Dividend income from equity investments | **10,241** | 30,685 |
| Rental income from property, plant and equipment | **1,315** | 765 |
| | **572,752** | 622,310 |

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Financial assets at FVTPL | **100,861** | 97,286 |
| Financial assets at amortised cost (including bank balances and cash) | **470,576** | 524,259 |
| | **571,437** | 621,545 |
| Investment income earned on non-financial assets | **1,315** | 765 |
| | **572,752** | 622,310 |

Included above is net income from listed investments and unlisted investments of HK$100,861,000 and HK$ nil respectively (2019: net income HK$76,364,000 and HK$20,922,000) respectively.

## 7. FINANCE COSTS

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Interests on bank and other borrowings | **2,916,753** | 2,964,937 |
| Interests on lease liabilities | **17,556** | 8,579 |
| | **2,934,309** | 2,973,516 |
| Less: amounts capitalised in properties under development held for sale | **(1,079,924)** | (1,077,709) |
| | **1,854,385** | 1,895,807 |

Borrowing costs capitalised during the year arose on the general borrowings pool and are calculated by applying capitalisation rates ranging from 4.01% to 6.09% (2019: 3.48% to 6.09%), per annum to expenditure on qualifying assets.

## 8. GAIN ON DISPOSAL OF SUBSIDIARIES/INTERESTS IN ASSOCIATES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Gain on disposal of subsidiaries | **653,463** | – |
| Gain on disposal of interests in associates | **70,295** | – |
| | **723,758** | – |

## 9. INCOME TAX EXPENSE

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Current tax | | |
| – Hong Kong | **81,509** | 206,493 |
| – PRC LAT | **1,549,796** | 1,982,675 |
| – PRC EIT (including PRC withholding tax of HK$85,617,000 (2019: HK$83,683,000)) | **1,596,376** | 2,235,576 |
| | **3,227,681** | 4,424,744 |
| Overprovision in prior years | | |
| – Hong Kong | **(308)** | (135) |
| – PRC LAT (Note) | **(19,347)** | (52,790) |
| – PRC EIT (Note) | **(65,141)** | (111,901) |
| | **(84,796)** | (164,826) |
| Deferred taxation for the year (note 26) | **(148,967)** | (687,273) |
| | **2,993,918** | 3,572,645 |

Note: The Group recognised overprovisions of PRC LAT and PRC EIT during the years ended 31 December 2020 and 2019, upon completion of tax clearance procedures by certain PRC subsidiaries with the respective tax authorities.

## 9. 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:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Profit before taxation | **6,917,061** | 8,906,201 |
| Tax at PRC statutory tax rate of 25% (2019: 25%) | **1,729,265** | 2,226,550 |
| Tax effect of share of results of joint ventures and associates | **(201,981)** | (122,958) |
| Tax effect of expenses not deductible for tax purpose | **406,903** | 346,485 |
| Tax effect of income not taxable for tax purpose | **(234,136)** | (50,358) |
| Overprovision of Hong Kong Profits Tax and PRC EIT in prior years | **(65,449)** | (112,036) |
| Tax effect of tax losses not recognised as deferred tax assets | **282,138** | 207,917 |
| Utilisation of tax losses previously not recognised as deferred tax assets | **(38,916)** | (16,761) |
| Derecognition of deferred tax liabilities due to change in tax rate of LAT for certain properties sold | **(353,813)** | (410,983) |
| Effect of PRC subsidiaries subject to a lower tax rate | **(34,395)** | (63,457) |
| Effect of different tax rates of subsidiaries | **22,293** | (22,384) |
| Provision for PRC LAT for the year | **1,895,810** | 1,985,537 |
| Overprovision of PRC LAT in prior years | **(19,347)** | (52,790) |
| Tax effect of PRC LAT deductible for PRC EIT | **(459,056)** | (482,969) |
| Tax charge on dividend withholding tax | **27,304** | 97,793 |
| Others | **37,298** | 43,059 |
| Income tax expense for the year | **2,993,918** | 3,572,645 |

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) four (2019: two) PRC subsidiaries are qualified as High New Technology Enterprises and enjoy a preferential tax rate of 15% for the current year (the preferential tax rate is applicable for three years 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.

## 10. PROFIT FOR THE YEAR

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Employee benefits expense, including directors' emoluments: | | |
| Basic salaries, allowances and bonus | **1,771,489** | 1,706,911 |
| Retirement benefits scheme contributions | **188,241** | 288,408 |
| | **1,959,730** | 1,995,319 |
| Amortisation of toll road operating rights (included in cost of sales) | **644,840** | 797,114 |
| Amortisation of other intangible assets (included in cost of sales) | **360,077** | 358,457 |
| Depreciation of property, plant and equipment | **524,767** | 533,403 |
| Depreciation of right-of-use assets | **94,288** | 72,511 |
| Total depreciation and amortisation | **1,623,972** | 1,761,485 |
| Auditors' remuneration | **17,244** | 19,214 |
| Cost of inventories recognised as an expense | | |
| – properties | **8,442,161** | 9,319,222 |
| – inventories, other than properties | **2,026,682** | 2,713,072 |
| Impairment loss on trade receivables | **100,647** | 28,847 |
| Impairment loss on other receivables | **89,842** | – |
| Impairment loss on properties held for sale | **100,212** | 145,219 |
| Impairment loss on properties under development held for sale | **23,739** | 145,414 |
| Impairment loss on goodwill | **79,555** | 15,567 |
| Impairment loss on a toll road operating right | **322,123** | – |
| Net foreign exchange loss (included in other income, gains and losses) | **–** | 38,596 |
| Net decrease in fair value of investment properties | **185,972** | – |
| Provision for major overhauls (included in cost of sales) | **1,125** | 1,005 |
| Research expenditure | **146,803** | 121,184 |
| Share of PRC EIT of joint ventures (included in share of results of joint ventures) | **67,261** | 77,739 |
| Share of PRC EIT of associates (included in share of results of associates) | **394,624** | 98,699 |
| and after crediting: | | |
| Interest income | **477,879** | 540,198 |
| Net increase in fair value of investment properties | **–** | 221,809 |
| Net gain on disposal/written off of property, plant and equipment | **4,396** | 5,571 |
| Net foreign exchange gain (included in other income, gains and losses) | **75,972** | – |
| Reversal of impairment loss on trade receivables | **–** | 10,061 |
| Reversal of impairment loss on other receivables | **–** | 2,997 |
| Reversal of impairment loss on inventories, other than properties | **1,551** | 4,352 |

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

The emoluments paid or payable to each of the eight (2019: eight) former and existing directors of the Company were as follows:

| | Executive directors | | | | Independent non-executive directors | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shen Xiao Chu | Zhou Jun | Xu Bo | Xu Zhan | Woo Chia-Wei | Leung Pak To, Francis | Cheng Hoi Chuen, Vincent | Yuen Tin Fan, Francis | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Year ended 31 December 2020** | | | | | | | | | |
| Executive directors: | | | | | | | | | |
| Directors' fee and committee remuneration | – | 562 | – | 334 | – | – | – | – | 896 |
| Basic salaries and allowances | 3,258 | 2,364 | 1,887 | – | – | – | – | – | 7,509 |
| Bonuses | 2,100 | 1,995 | 840 | – | – | – | – | – | 4,935 |
| Retirement benefits scheme contributions | 114 | 102 | 94 | – | – | – | – | – | 310 |
| Independent non-executive directors: | | | | | | | | | |
| Directors' fees and committee remuneration | – | – | – | – | 480 | 470 | 480 | 470 | 1,900 |
| Total directors' emoluments | 5,472 | 5,023 | 2,821 | 334 | 480 | 470 | 480 | 470 | 15,550 |
| **Year ended 31 December 2019** | | | | | | | | | |
| Executive directors: | | | | | | | | | |
| Directors' fee and committee remuneration | – | 574 | – | 518 | – | – | – | – | 1,092 |
| Basic salaries and allowances | 3,258 | 2,364 | 1,887 | – | – | – | – | – | 7,509 |
| Bonuses | 2,100 | 1,995 | 840 | – | – | – | – | – | 4,935 |
| Retirement benefits scheme contributions | 112 | 100 | 92 | – | – | – | – | – | 304 |
| Independent non-executive directors: | | | | | | | | | |
| Directors' fees and committee remuneration | – | – | – | – | 480 | 470 | 480 | 470 | 1,900 |
| Total directors' emoluments | 5,470 | 5,033 | 2,819 | 518 | 480 | 470 | 480 | 470 | 15,740 |

Notes:

(i) The 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.

(ii) 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.

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

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

(v) During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the directors of the Company 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.

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

For the year ended 31 December 2020, out of the five individuals with the highest emoluments in the Group, three (2019: three) are directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2019: two) individual are as follows:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Salaries and other allowances | **4,657** | 4,631 |
| Retirement benefits | **106** | 105 |
| | **4,763** | 4,736 |

The emoluments of the above two (2019: two) individuals are within the following band:

| | **2020** | 2019 |
|---|---|---|
| HK$2,000,001 to HK$2,500,000 | **2** | 2 |

During the years ended 31 December 2020 and 2019, 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.

## 12. DIVIDENDS

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2020 interim dividend of HK22 cents per share and settled in form of distribution in specie (2019: 2019 interim dividend settled in form of distribution in specie) (Note) | **397,919** | 1,098,084 |
| 2019 final dividend of HK52 cents (2019: 2018 final dividend of HK52 cents) per share | **565,350** | 565,350 |
| | **963,269** | 1,663,434 |

Note: An 2020 interim dividend of HK22 cents and settled in form of distribution in specie of 217,442,320 shares in SI Urban Development ("2020 SIUD Share") on the basis of 1 2020 SIUD Share for every 5 shares of the Company ("2020 Distribution in Specie") were settled on 22 October 2020. The aggregate fair value of the 2020 SIUD Shares distributed under the 2020 Distribution in Specie was HK$158,733,000, which represented a distribution of HK15 cents per share (closing price on the date of dispatch) of the Company.

An 2019 interim dividend settled in form of distribution in specie of 1,087,211,600 shares in SI Urban Development ("2019 SIUD Share") on the basis of 1 2019 SIUD Share for every 1 share of the Company ("2019 Distribution in Specie") was settled on 18 October 2019. The aggregate fair value of the 2019 SIUD Shares distributed under the 2019 Distribution in Specie was HK$1,098,084,000, which represented a distribution of HK101 cents per share (closing price on the date of dispatch) of the Company.

The final dividend of HK52 cents per share in respect of the year ended 31 December 2020 (2019: HK52 cents), amounting to approximately HK$565.4 million (2019: 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.

## 13. EARNINGS PER SHARE

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Earnings for the purpose of basic and diluted earnings per share | | |
| Profit for the year attributable to owners of the Company | **2,218,877** | 3,349,531 |
| Interest to holder of perpetual bond | **(29,568)** | – |
| | **2,189,309** | 3,349,531 |

| | 2020 | 2019 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | **1,087,211,600** | 1,087,211,600 |

The computation of diluted earnings per share does not assume:

(i) 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 period up till the options lapsed/year; and

(ii) the exercise of options issued by Canvest Environmental Protection Group Company Limited ("Canvest Environmental"), a listed associate of the Group, because the exercise price of the options was higher than the average market price for the corresponding period.

## 14. INVESTMENT PROPERTIES

The Group leases out various commercial and residential properties including offices, shopping malls, stores, mart, exhibition hall, car parking spaces and apartments under operating leases with monthly rentals. The leases typically run for an initial period of one to twenty years and the lessees have the option to extend the lease beyond initial agreed period but it is subject to mutual agreement between the Group and the lessees. The extension option is subject to market review clauses in the event the lessee exercises the option.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2019 | 19,372,125 |
| Exchange adjustments | (351,199) |
| Subsequent expenditures | 53,341 |
| Additions under sublease arrangement of leased properties | 7,383 |
| Acquisition (Note iv) | 517,845 |
| Transfer from inventories (Note iii) | 3,023,283 |
| Net increase in fair value recognised in profit or loss (Note i) | 221,809 |
| At 31 December 2019 | 22,844,587 |
| Exchange adjustments | 2,233,498 |
| Subsequent expenditures | 185,517 |
| Transfer from inventories (Note iii) | 2,277,152 |
| Transfer to property, plant and equipment (Note v) | (188,506) |
| Net decrease in fair value recognised in profit or loss (Note i) | (185,972) |
| At 31 December 2020 | 27,166,276 |

Notes:

| | | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| (i) | Unrealised (loss) gain on property revaluation included in profit or loss for the year (included in other income, gains and losses) | **(185,972)** | 221,809 |

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Leasehold land in the PRC | **27,166,276** | 22,844,587 |

(iii) During the year ended 31 December 2020, properties held for sale included in inventories with an aggregate carrying amount of HK$2,277,152,000 (2019: HK$3,023,283,000) were transferred to investment properties as the management had changed the use of the properties, evidenced by inception of lease agreements with the tenants. The properties were measured at fair values arrived on the basis of valuations carried out on the respective dates by Cushman & Wakefield Limited ("C&W") at the date of transfer by reference to net rental income allowing for reversionary income potential.

(iv) During the year ended 31 December 2019, the Group acquired a parcel of land in Shanghai Xuhui District, where residential properties will be developed for earning rentals, at a consideration of RMB456,480,000 (equivalent to HK$517,845,000) (2020: nil) which was prepaid by the Group in 2018.

(v) During the year ended 31 December 2020, certain units of an investment property of the Group located in Shanghai the PRC, were arranged for own use and served as office premises of the Group due to the needs of expansion of business. Accordingly, investment properties with a fair value of HK$188,506,000 (2019: nil) were transferred to property, plant and equipment.

## 14. 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$1,132,768,000 (2019: HK$1,283,057,000) with insignificant direct operating expenses.

(vii) The fair values of the Group's investment properties as at 31 December 2020 and 2019 have been arrived at on the basis of valuations carried out on the respective dates by C&W. C&W is a member of the Institute of Valuers and a firm of independent qualified professional valuer not connected with 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. The fair values of certain investment properties have been adjusted to exclude prepaid or accrued operating lease income to avoid double counting.

(viii) Following are the key inputs used in valuing the investment properties as at 31 December 2020 and 2019:

| Category | Fair value hierarchy | Fair value 2020 HK$'000 | Fair value 2019 HK$'000 | Valuation techniques | Significant unobservable inputs | Range 2020 | Range 2019 | Sensitivity |
|---|---|---|---|---|---|---|---|---|
| Offices properties and related car parking spaces | Level 3 | **8,419,020** | 6,356,143 | Investment approach | For offices: Reversionary yield derived from market rent and the transaction price of comparable properties in the same locations | **3.75% to 6.75%** | 4.75% to 6.75% | The higher the reversionary yield, the lower the fair value. |
| | | | | Direct comparison approach | For car parking spaces: Market price per unit | **Market price: RMB194,000 to RMB295,000 per unit** | Market price: RMB200,000 to RMB211,000 per unit | The higher the market price per unit, the higher the fair value. |
| Residential properties – a detached villa, service apartments and a parcel of land in various locations | Level 3 | **1,154,078** | 1,001,122 | Investment approach | For a detached villa and a service apartment: Reversionary yield derived from market rent and transaction price of comparable properties in the same locations | **3.5% to 4.75%** | 3.5% to 4.75% | The higher the reversionary yield, the lower the fair value. |
| | | | | Direct comparison approach | For service apartments: Market price per square metre | **Market price: RMB13,700 to RMB48,000 per square metre** | Market price: RMB11,052 to RMB11,382 per square metre | The higher the market price per square metre, the higher the fair value. |
| | | | | Direct comparison approach and cost approach | For a parcel of land commenced construction for service apartments: Market price per square metre | **Market price: RMB24,100 to RMB27,810 per square metre** | N/A | The higher the market price per square metre, the higher the fair value. |
| | | | | Direct comparison approach | For a parcel of land yet commenced construction for service apartments: Market price per square metre | **N/A** | Market price: RMB20,182 to RMB27,250 per square metre | The higher the market price per square metre, the higher the fair value. |
| Industrial properties | Level 3 | **147,520** | 138,636 | Investment approach | Reversionary yield derived from market rent and the transaction price of comparable properties in the same locations | **5.75%** | 5.75% | The higher the reversionary yield, the lower the fair value. |
| Commercial properties – shopping malls, stores, mart, exhibition hall and related car parking spaces | Level 3 | **17,445,658** | 15,348,686 | Investment approach | For commercial properties: Reversionary yield derived from market rent and the transaction price of comparable properties in the same locations | **3.5% to 7.75%** | 3.5% to 7.75% | The higher the reversionary yield, the lower the fair value. |
| | | | | Direct comparison approach | For car parking spaces: Market price per unit | **Market price: RMB104,000 to RMB189,000 per unit** | Market price: RMB110,000 to RMB320,000 per unit | The higher the market price per unit, the higher the fair value. |
| | | **27,166,276** | 22,844,587 | | | | | |

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

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Hotel property HK$'000 | Leasehold land and buildings HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Plant and machinery HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2019 | 2,395,872 | 2,287,915 | 1,092,366 | 170,552 | 2,923,081 | 168,141 | 9,037,927 |
| Exchange adjustments | (5,737) | (23,353) | (9,378) | (2,893) | (16,570) | (4,536) | (62,467) |
| Additions | 1,365 | 200,380 | 187,838 | 17,282 | 139,858 | 173,386 | 720,109 |
| Reclassification | 73,234 | – | (525) | – | 14,957 | (87,666) | – |
| Disposals/written off | (562) | (62,957) | (38,058) | (18,617) | (29,279) | (576) | (150,049) |
| At 31 December 2019 | 2,464,172 | 2,401,985 | 1,232,243 | 166,324 | 3,032,047 | 248,749 | 9,545,520 |
| Exchange adjustments | 150,910 | 109,321 | 55,817 | 10,269 | 73,270 | 16,806 | 416,393 |
| Additions | 1,353 | 3,194 | 48,150 | 12,459 | 161,310 | 5,452 | 231,918 |
| Acquisition of a subsidiary (note 37) | – | 55,322 | 6,347 | 4 | 20,626 | – | 82,299 |
| Reclassification | – | 8,122 | – | – | – | (8,122) | – |
| Transferred from investment properties (note 14) | – | 188,506 | – | – | – | – | 188,506 |
| Disposal of a subsidiaries (note 39) | – | (18,199) | (1,065) | (1,956) | (879) | – | (22,099) |
| Disposals/written off | (1,895) | (17,132) | (65,693) | (13,294) | (32,329) | – | (130,343) |
| At 31 December 2020 | 2,614,540 | 2,731,119 | 1,275,799 | 173,806 | 3,254,045 | 262,885 | 10,312,194 |
| DEPRECIATION, AMORTISATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2019 | 428,258 | 699,587 | 579,658 | 113,011 | 1,675,349 | – | 3,495,863 |
| Exchange adjustments | (10,287) | (8,870) | (5,459) | (2,132) | (8,740) | – | (35,488) |
| Provided for the year | 104,671 | 106,826 | 87,006 | 18,622 | 216,278 | – | 533,403 |
| Eliminated on disposals/written off | (562) | (12,362) | (17,678) | (17,141) | (18,299) | – | (66,042) |
| At 31 December 2019 | 522,080 | 785,181 | 643,527 | 112,360 | 1,864,588 | – | 3,927,736 |
| Exchange adjustments | 32,744 | 37,858 | 22,598 | 11,074 | 52,562 | – | 156,836 |
| Provided for the year | 105,823 | 104,713 | 90,329 | 22,947 | 200,955 | – | 524,767 |
| Eliminated on disposal of a subsidiaries | – | (7,016) | (946) | (1,880) | (832) | – | (10,674) |
| Eliminated on disposals/ written off | (1,717) | (1,147) | (33,115) | (12,293) | (1,952) | – | (50,224) |
| At 31 December 2020 | 658,930 | 919,589 | 722,393 | 132,208 | 2,115,321 | – | 4,548,441 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2020 | 1,955,610 | 1,811,530 | 553,406 | 41,598 | 1,138,724 | 262,885 | 5,763,753 |
| At 31 December 2019 | 1,942,092 | 1,616,804 | 588,716 | 53,964 | 1,167,459 | 248,749 | 5,617,784 |

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

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

| | |
|---|---|
| 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:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Leasehold land in the PRC | **3,175,433** | 2,952,139 |
| Leases in Hong Kong | **591,707** | 606,757 |
| | **3,767,140** | 3,558,896 |

## 16. RIGHT-OF-USE ASSETS

| | Leasehold land HK$'000 | Leased properties (Note i) HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 31 December 2020** | | | |
| Carrying amount | **293,095** | **242,103** | **535,198** |
| **As at 31 December 2019** | | | |
| Carrying amount | 223,161 | 184,321 | 407,482 |
| **For the year ended 31 December 2020** | | | |
| Depreciation charge | **9,646** | **84,642** | **94,288** |
| Disposal of a subsidiary | **1,680** | **–** | **1,680** |
| Acquisition of a subsidiary | **(32,701)** | **–** | **(32,701)** |
| Exchange difference | **(11,597)** | **(14,109)** | **(25,706)** |
| | **(32,972)** | **70,533** | **37,561** |
| For the year ended 31 December 2019 | | | |
| Depreciation charge | 7,454 | 65,057 | 72,511 |
| Exchange difference | 3,560 | 53 | 3,613 |
| | 11,014 | 65,110 | 76,124 |

## 16. RIGHT-OF-USE ASSETS (continued)

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16 | **15,479** | 54,178 |
| Expense relating to leases of low-value assets, excluding short-term leases of low value assets | **115** | 190 |
| Total cash outflow for leases (Note (ii)) | **153,158** | 152,195 |
| Additions to right-of-use assets (Note (iii)) | **197,978** | 164,627 |

Notes:

(i) The Group leases various office premises and apartment units for its operations. Majority of the lease contracts are entered into for lease terms of 2 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease terms and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

(ii) Total cash outflow for leases included the repayment of lease liabilities and related interest paid, expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16 and expense relating to leases of low-value assets.

(iii) Amount of HK$197,978,000 (2019: HK$164,627,000) includes right-of-use assets resulting from new leases entered and lease modification for leasehold land amounting HK$165,277,000 (2019: HK$164,627,000) and business combination amounting HK$32,701,000 (2019: nil)

The Group regularly entered into short-term leases for leased properties. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense during the relevant year.

### Restrictions or covenants on leases

In addition, in respect of right-of-use assets of HK$242,103,000 (2019: HK$184,321,000) and the associated lease liabilities of HK$431,057,000 (2019: HK$362,190,000) as at 31 December 2020, the lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## 17. TOLL ROAD OPERATING RIGHTS

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2019 | 15,133,446 |
| Exchange adjustments | (267,459) |
| At 31 December 2019 | 14,865,987 |
| Addition | 184,484 |
| Exchange adjustments | 928,765 |
| At 31 December 2020 | 15,979,236 |
| AMORTISATION AND IMPAIRMENT | |
| At 1 January 2019 | 6,719,859 |
| Charged for the year | 797,114 |
| Exchange adjustments | (131,529) |
| At 31 December 2019 | 7,385,444 |
| Charged for the year | 644,840 |
| Impairment loss recognised (Note iii) | 322,123 |
| Exchange adjustments | 494,639 |
| At 31 December 2020 | 8,847,046 |
| CARRYING VALUES | |
| At 31 December 2020 | 7,132,190 |
| At 31 December 2019 | 7,480,543 |

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.

(iii) During the year ended 31 December 2020, revenue from toll road operations decreased significantly, which is primarily resulted from the decrease in traffic flow volume and the waiver of toll fees according to "The Notice on Toll Roads going Toll-Free During the Period of Precautionary and Control in relation to the outbreak of Coronavirus Epidemic" issued by the Ministry of Transport of the PRC, as well as the changes of governmental policies in relation to the toll road operations in the PRC.

Based on the above circumstances, the Group performed impairment assessment on respective cash generating units ("CGUs") comprising each of the three toll road operating rights with an aggregate carrying amount of HK$7,132,190,000. The recoverable amounts of CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the remaining useful lives of the toll road operating rights with pre-tax discount rates at 15.2% as at 31 December 2020. The revenue and operating expense growth are determined based on traffic flow forecasts performed by an independent professional traffic flow expert. Key assumptions for the value in use calculation are (i) the impact on toll road operations due to Covid-19; (ii) the standardisation of starting point of toll charging around the city; (iii) the national implementation of new toll fee charging schemes, under which the classification of vehicles and tariff multiplier is changed; and (iv) the discount on using ETC cards for toll payment of 5%.

Based on the result of the assessment, management of the Group determined that the recoverable amount of one of the CGUs is lower than the respective carrying amount. Based on the value in use calculations, an impairment loss of HK$322,123,000 (2019: nil) has been recognised against the carrying amount of a toll road operating right.

## 18. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2019 | 862,353 |
| Exchange adjustments | (13,437) |
| At 31 December 2019 | 848,916 |
| Exchange adjustments | 46,312 |
| Arising on acquisition of a subsidiary (note 37) | 72,982 |
| At 31 December 2020 | 968,210 |
| IMPAIRMENT | |
| At 1 January 2019 | 62,256 |
| Impairment loss recognised | 15,567 |
| At 31 December 2019 | 77,823 |
| Impairment loss recognised | 79,555 |
| At 31 December 2020 | 157,378 |
| CARRYING VALUES | |
| At 31 December 2020 | 810,832 |
| At 31 December 2019 | 771,093 |

For the purpose of impairment testing, goodwill arising on business combinations as set out above was allocated, at acquisition, to three (2019: three) CGUs, comprising one (2019: one) subsidiary in the infrastructure facilities segment, one (2019: one) subsidiary in the real estate segment and two (2019: two) subsidiaries in the consumer products segment, that are expected to benefit from that business combination as follows:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Infrastructure facilities | **531,826** | 500,773 |
| Real estate | **261,337** | 246,077 |
| Consumer products | **17,669** | 24,243 |
| | **810,832** | 771,093 |

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

For infrastructure facilities CGU, the value in use is determined by discounting the future cash flows to be generated from the continuing use of waste water treatment plant and waste incineration power generation plant over the service concession periods ranging from 20 to 30 years, using a discount rate of 8% (2019: 8%). Since the recoverable amount of the cash generating unit is higher than its carrying amount, the management of the Group considers that the goodwill is not impaired.

For real estate CGU, the value in use calculation uses cash flow projections based on a financial budget approved by management covering a 5-year period with 12% (2019: 12%) 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 considers that the goodwill is not impaired.

## 18. GOODWILL (continued)

For consumer products CGU, the value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period using discount rates ranging 11.8% to 14% (2019: 14%). The cash flows beyond the 5-year period are extrapolated at 0% to 3% (2019: zero). This growth rate is based on the relevant industry growth forecasts and does not exceed the average growth rate for the relevant 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 2020, the management of the Group determined that an impairment loss of HK$79,555,000 (2019: HK$15,567,000) 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 materially exceed the aggregate recoverable amount of the relevant CGUs.

## 19. OTHER INTANGIBLE ASSETS

| | Operating concessions HK$'000 (Note i) | Premium on leasehold land/prepaid lease payments HK$'000 (Note ii) | Trademark HK$'000 (Note iii) | Licence HK$'000 (Note iv) | Total HK$'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2019 | 8,750,155 | 1,585 | 57,980 | – | 8,809,720 |
| Exchange adjustments | (163,701) | (28) | (933) | – | (164,662) |
| Additions | 393,811 | – | – | – | 393,811 |
| At 31 December 2019 | 8,980,265 | 1,557 | 57,047 | – | 9,038,869 |
| Exchange adjustments | 517,161 | 97 | 3,537 | – | 520,795 |
| Acquisition of a subsidiary | – | – | – | 15,430 | 15,430 |
| Additions | 228,697 | – | – | – | 228,697 |
| At 31 December 2020 | 9,726,123 | 1,654 | 60,584 | 15,430 | 9,803,791 |
| AMORTISATION AND IMPAIRMENT | | | | | |
| At 1 January 2019 | 1,075,289 | 410 | – | – | 1,075,699 |
| Exchange adjustments | (23,806) | (9) | – | – | (23,815) |
| Charged for the year | 358,375 | 82 | – | – | 358,457 |
| At 31 December 2019 | 1,409,858 | 483 | – | – | 1,410,341 |
| Exchange adjustments | 59,085 | 33 | – | – | 59,118 |
| Charged for the year | 359,994 | 83 | – | – | 360,077 |
| At 31 December 2020 | 1,828,937 | 599 | – | – | 1,829,536 |
| CARRYING VALUES | | | | | |
| At 31 December 2020 | 7,897,186 | 1,055 | 60,584 | 15,430 | 7,974,255 |
| At 31 December 2019 | 7,570,407 | 1,074 | 57,047 | – | 7,628,528 |

## 19. OTHER INTANGIBLE ASSETS (continued)

Notes:

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

(ii) Premium on leasehold land 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 2020 and 2019, 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.

(iv) The licence has a legal life of 9 years from 2021 to 2029 and is not renewable upon expiry. Licence represent the right to produces of tax and duty-fee cigarette products and sales in Malaysia, which is to be amortised over the period of legal life.

## 20. INTERESTS IN JOINT VENTURES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cost of unlisted investments in joint ventures | **4,039,459** | 2,234,605 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received/declared | **1,435,942** | 1,017,941 |
| | **5,475,401** | 3,252,546 |

Notes:

(i) 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 上海諾卓企業管理有限公司 (Shanghai Nuozhuo Enterprise Management Company Limited) ("Shanghai Nuozhuo") set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

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

**General Water**

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Current assets | **2,919,169** | 2,844,023 |
| Non-current assets* | **6,233,774** | 5,956,107 |
| Current liabilities | **(2,583,126)** | (2,460,483) |
| Non-current liabilities | **(1,489,159)** | (1,307,717) |
| Non-controlling interests | **(845,031)** | (1,225,574) |
| The above amounts of assets and liabilities include the following: | | |
| Cash and cash equivalents | **1,576,905** | 1,544,870 |
| Current financial liabilities (excluding trade and other payables and provisions) | **(831,551)** | (782,998) |
| Non-current financial liabilities (excluding trade and other payables and provisions) | **(1,281,859)** | (1,051,761) |
| Revenue | **2,722,272** | 2,445,948 |
| Profit for the year | **274,366** | 213,036 |
| Other comprehensive income (expense) for the year | **248,958** | (66,824) |
| Total comprehensive income for the year | **523,324** | 146,212 |
| Dividends received during the year | **42,324** | 34,409 |
| The above profit for the year includes the following: | | |
| Depreciation and amortisation | **(425,747)** | (317,154) |
| Interest income | **17,197** | 28,489 |
| Interest expense | **(79,584)** | (89,085) |
| Income tax expense | **(120,394)** | (125,120) |

* The balances of General Water mainly comprise operating concessions.

## 20. INTERESTS IN JOINT VENTURES (continued)

Notes: (continued)

(i) (continued)

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Equity attributable to owners of General Water | **4,235,627** | 3,806,356 |
| Proportion of the Group's ownership interest in General Water | **45%** | 45% |
| Carrying amount of the Group's interest in General Water | **1,906,032** | 1,712,860 |

**Shanghai Nuozhuo**

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Non-current assets* | **3,136,137** | – |
| Current assets | **25** | 569,463 |
| Current liabilities | **(25)** | (569,463) |
| Equity attributable to owners of Shanghai Nuozhuo | **3,136,137** | – |
| Revenue | **–** | – |
| Profit and other comprehensive income for the year | **3** | – |

* The balances of Shanghai Nuozhuo mainly comprise land costs relating to properties under development for rentals.

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

| | 2020 HK$'000 |
|---|---|
| Equity attributable to owners of Shanghai Nuozhuo | **3,136,137** |
| Proportion of the Group's ownership interest in Shanghai Nuozhuo | **50%** |
| Carrying amount of the Group's interest in Shanghai Nuozhuo | **1,568,069** |

**Aggregate information of joint ventures that are not individually material:**

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| The Group's share of profit | **39,569** | 64,038 |
| The Group's share of other comprehensive income (expense) | **98,012** | (18,829) |
| The Group's share of total comprehensive income | **137,581** | 45,209 |
| Dividends received during the year | **23,036** | 40,731 |
| Aggregate carrying amount of the Group's interests in these joint ventures | **2,001,300** | 1,539,686 |

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Unrecognised share of profit of a joint venture for the year | **473** | 234 |
| Accumulated unrecognised share of losses of a joint venture | **(4,527)** | (5,000) |

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

## 21. INTERESTS IN ASSOCIATES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cost of investments in associates | **6,233,463** | 6,482,890 |
| Share of post-acquisition profit (losses) and other comprehensive income (expense), net of dividends received/declared | **665,950** | (66,836) |
| | **6,899,413** | 6,416,054 |
| Fair value of listed investment in an associate – Canvest Environmental | **1,573,081** | 1,579,029 |

Notes:

(i) Included in the cost of investments is goodwill of HK$717,597,000 (2019: HK$907,589,000) arising on acquisitions.

(ii) On 21 April 2020, Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd. ("Hu-Ning Expressway"), an indirectly wholly owned subsidiary of the Group entered into a share transfer agreement with Shanghai Galaxy Investment Co., Ltd. ("Shanghai Galaxy"), an associate of the Group, to dispose of Hu-Ning Expressway's entire about 24% equity interest in an associate, namely Zhejiang Wufangzhai Industrial Co. Ltd. ("Wufangzhai") at a cash consideration of RMB419,508,000 (equivalent to HK$462,931,000). Wufangzhai is principally engaged in the production and sale of glutinous rice dumplings, chain food services and the rice industry. This transaction has resulted in the Group recognising a gain of HK$68,424,000 in profit or loss for the year ended 31 December 2020.

(iii) As at 31 December 2020, despite the shortfall of the market value of the relevant interest of Canvest Environmental amounted to HK$457,360,000 (2019: HK$164,958,000) compared to the carrying amount of the relevant interest, the management of the Group has determined that there is no impairment on the carrying amount of the Group's interest in Canvest Environmental by reference to the recoverable amount of the relevant interest, which has been determined based on a value in use calculation with reference to the future dividend yields and disposal value of the relevant interest.

(iv) 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 |
| Current assets* | **5,817,757** | 8,320,899 | **719,090** | 284,355 | **3,369,054** | 2,167,264 | **3,173,455** | 2,101,572 |
| Non-current assets** | **1,325** | 1,290 | **10,795,973** | 10,872,963 | **15,257,621** | 11,299,503 | **7,532,228** | 6,589,275 |
| Current liabilities | **(1,422,631)** | (4,661,898) | **(2,084,475)** | (1,661,439) | **(2,306,673)** | (2,055,403) | **(2,880,575)** | (2,559,002) |
| Non-current liabilities | **–** | (472,371) | **(3,073,160)** | (3,275,321) | **(9,295,741)** | (5,390,027) | **(4,296,077)** | (3,179,550) |
| Non-controlling interests | **–** | – | **–** | – | **(284,815)** | (199,440) | **(542,018)** | (301,581) |

* 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 the year 2014. The pre-sale activities for certain phases have been carried out continuously since 2018 and the constructions were completed by phases since 2019.

** The balances of Hangzhou Bay Bridge and Canvest Environmental mainly comprise operating concessions. The balances of Shanghai Galaxy mainly comprise property, plant and equipment.

## 21. INTERESTS IN ASSOCIATES (continued)

Notes: (continued)

(iv) (continued)

| | Shanghai Shentian | | Hangzhou Bay Bridge | | Canvest Environmental | | Shanghai Galaxy | |
|---|---|---|---|---|---|---|---|---|
| | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 |
| Revenue | **4,209,453** | – | **1,677,758** | 1,896,765 | **4,987,806** | 3,952,216 | **806,389** | 722,762 |
| Profit for the year | **956,319** | – | **404,752** | 641,358 | **1,057,183** | 892,051 | **143,114** | 98,204 |
| Other comprehensive income (expense) for the year | **252,213** | (57,354) | **355,559** | (124,137) | **464,566** | (125,391) | **227,534** | (56,653) |
| Total comprehensive income (expense) for the year | **1,208,532** | (57,354) | **760,311** | 517,221 | **1,521,749** | 766,660 | **370,648** | 41,551 |
| Dividends received during the year | **–** | – | **(143,666)** | (141,193) | **(37,070)** | (25,385) | **(15,457)** | (16,472) |

(iv) 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 | |
|---|---|---|---|---|---|---|---|---|
| | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | 2020 HK$'000 (Note) | 2019 HK$'000 (Note) | **2020 HK$'000** | 2019 HK$'000 |
| Equity attributable to owners of the associate | **4,396,451** | 3,187,920 | **6,357,428** | 6,220,558 | **6,739,446** | 5,821,897 | **2,987,013** | 2,650,714 |
| Proportion of the Group's ownership interest | **35%** | 35% | **23.06%** | 23.06% | **19.48%** | 17.63% | **45%** | 45% |
| Goodwill | **–** | – | **–** | 717,597 | **717,597** | – | **–** | |
| Carrying amount of the Group's interest in the associate | **1,538,758** | 1,115,772 | **1,466,023** | 1,434,461 | **2,030,441** | 1,743,997 | **1,344,156** | 1,192,821 |

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:**

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| The Group's share of profit | **15,753** | 16,149 |
| The Group's share of other comprehensive income (expense) | **71,632** | (12,471) |
| The Group's share of total comprehensive income | **87,385** | 3,678 |
| Dividends received during the year | **5,839** | 25,908 |
| Aggregate carrying amount of the Group's interests in the associates | **520,035** | 929,003 |

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

## 22. INVESTMENTS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Equity instruments at FVTPL | | |
| Listed equity securities | **465,657** | 477,590 |
| Unlisted equity securities | **31,411** | 31,375 |
| | **497,068** | 508,965 |
| Financial assets at FVTPL | | |
| Corporate bonds | **149,505** | 258,965 |
| Funds | **17,591** | 74,178 |
| | **167,096** | 333,143 |
| Equity instruments at FVTOCI | | |
| Listed equity securities (Note i) | **106,882** | 116,736 |
| Unlisted equity securities (Note ii) | **593,738** | 547,915 |
| | **700,620** | 664,651 |
| Total investments | **1,364,784** | 1,506,759 |
| Analysed for reporting purposes as: | | |
| Current portion | **632,753** | 810,732 |
| Non-current portion | **732,031** | 696,027 |
| | **1,364,784** | 1,506,759 |

Notes:

(i) The above listed equity securities as at 31 December 2020 and 2019 represent ordinary shares of entities listed in the PRC and/or HK. 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 is not be consistent with the Group's strategy of holding these investments for long-term strategic purposes and realising their performance potential in the long run.

(ii) The above unlisted equity securities as at 31 December 2020 and 2019 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.

## 23. SERVICE CONCESSION ARRANGEMENTS

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

### (I) Nature of arrangements

The Group engages in the businesses of waste water 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"), a Transfer-Operate-Transfer ("TOT"), Build-Operate-Own ("BOO") or Transfer-Operate-Own ("TOO") basis in respect of its businesses. These service concession arrangements generally involve the Group as an operator to (i) construct waste water treatment, water supply, waste incineration and sludge treatment plants for those arrangements on a BOT and BOO basis; (ii) pay a specific amount for those arrangements on a TOT and TOO basis; (iii) operate and maintain the waste water 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 for its services over the relevant periods of the service concession arrangements at prices stipulated through pricing mechanism. The plants will be transferred to the respective grantors at the end of the service concession periods for BOT and TOT.

The Group is generally entitled to operate all the property, plant and equipment of the waste water treatment, water supply, waste incineration and sludge treatment plants, however, the relevant governmental authorities as grantors control and regulate the scope of services that the Group provides to the waste water treatment, water supply, waste incineration and sludge treatment plants and retain the beneficial entitlement to any residual interest in the waste water 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 waste water 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.

## 23. SERVICE CONCESSION ARRANGEMENTS (continued)

### (I) Nature of arrangements (continued)

At 31 December 2020, the Group had 125 (2019: 123) service concession arrangements on waste water treatment, seven (2019: seven) service concession arrangements on water treatment and distribution, four (2019: four) service concession arrangements on waste incineration and nine (2019: 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 design capacity (tons/day) | Service concession period |
|---|---|---|---|---|---|---|
| Longjiang Environmental Protection Group Co., Ltd. ("Longjiang Group") | Harbin Wenchang Upgrade BOT | Harbin, Heilongjiang Province | 哈爾濱市水務局 | BOT (Financial assets) | 650,000 | 29 years from 2011 to 2039 |
| Wuhan Hanxi Wastewater Treatment Co., Ltd. | Wuhan Hanxi Wastewater Treatment 1st Stage and 2nd Stage (Expansion) | Wuhan, Hubei Province | 武漢市人民政府 | BOT (Financial assets) | 600,000 | 30 years from 2005 to 2034 |
| Yiyang City Tap Water Co., Ltd. | Yiyang City Water Supply | Yiyang, Hunan Province | 益陽市住房和城鄉建設局 | TOT and BOT (Intangible assets) | 520,000 | 28 years from 2016 to 2044 |
| Mudanjiang Longjiang Environmental Protection Water Supply Co., Ltd. | Mudanjiang Water Supply TOT | Mudanjiang, Heilongjiang Province | 牡丹江市城市投資集團有限公司 | TOT (Intangible assets) | 360,000 | 30 years from 2010 to 2039 |
| Jiamusi Longjiang Environmental Protection Water Supply Co., Ltd. | Jiamusi Water Supply TOT | 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 |
| Longjiang Group | Harbin Taipin Wastewater Treatment BOT | Harbin, Heilongjiang Province | 哈爾濱供排水集團有限責任公司 | BOT (Financial assets) | 325,000 | 25 years from 2005 to 2029 |
| Longjiang Group | Harbin Wenchang Wastewater Treatment TOT | Harbin, Heilongjiang Province | 哈爾濱市水務局 | TOT (Financial assets) | 325,000 | 30 years from 2010 to 2039 |
| Weifang City Tap Water Co., Ltd. | Weifang City Tap Water Supply | Weifang, Shandong Province | 濰坊市人民政府 | TOT and BOT (Intangible assets) | 320,000 | 25 years from 2007 to 2032 |
| Yuyao City Xiaocaoe Urban Wastewater Treatment Co., Ltd. | Yuyao City (Xiaocaoe) Wastewater Treatment BOT | Yuyao Zhejiang Province | 余姚市人民政府 | BOT (Financial assets) | 225,000 | 22 years from 2014 to 2035 |

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

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Receivables under service concession arrangements | **23,978,851** | 20,003,560 |
| Less: current portion classified as current assets | **(819,316)** | (547,535) |
| Non-current portion | **23,159,535** | 19,456,025 |

During the year, the Group recognised interest income of HK$1,196,894,000 (2019: HK$1,072,290,000) and construction income of HK$2,604,435,000 (2019: HK$2,778,736,000) as revenue under the line item "income from infrastructure facilities" from service concession arrangements. The effective interest rate applied ranges from 4.9% to 8% (2019: 4.41% to 8%) per annum and the overall gross profit margin for construction contracts is at 12% (2019: 12.1%).

## 23. SERVICE CONCESSION ARRANGEMENTS (continued)

### (II) Provision for major overhauls

Pursuant to the service concession agreements, the Group has contractual obligations to maintain the waste water 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 waste water 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 waste water treatment, water supply, waste incineration and sludge treatment plants during the current and prior years are as follows:

| | HK$'000 |
|---|---|
| At 1 January 2019 | 87,325 |
| Exchange adjustments | (4,067) |
| Provided during the year | 1,005 |
| At 31 December 2019 | 84,263 |
| Exchange adjustments | 5,161 |
| Provided during the year | 1,125 |
| Settlement during the year | (2,389) |
| At 31 December 2020 | 88,160 |

## 24. DEPOSITS PAID ON ACQUISITION OF NON-CURRENT ASSETS

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Services concession arrangements (Note i) | **102,350** | 512,531 |
| Acquisition of land parcels (Note ii) | **3,092,790** | 726,063 |
| Acquisition of a subsidiary (Note iii) | **–** | 211,913 |
| Acquisition of an associate (Note iv) | **484,607** | – |
| Others (Note v) | **205,929** | 133,782 |
| | **3,885,676** | 1,584,289 |

Notes:

(i) During the year ended 31 December 2020, SIIC Environment entered into certain BOT and TOT service concession arrangements and total consideration paid as prepayments for service concession arrangements amounted to RMB86,158,000 (equivalent to HK$102,350,000) (2019: RMB458,203,000 (equivalent to HK$512,531,000)).

(ii) During the year ended 31 December 2018, the Group entered into a land use right transfer contract with Shanghai Minhang Land Bureau to acquire a parcel of land in Shanghai in the PRC for the development of residential properties held for earning rentals at a consideration of RMB649,100,000 (equivalent to HK$726,063,000) of which RMB519,280,000 (equivalent to HK$600,254,000) was paid during the year ended 31 December 2019 and RMB129,820,000 was paid during the year ended 31 December 2018.

## 24. DEPOSITS PAID ON ACQUISITION OF NON-CURRENT ASSETS (continued)

Notes: (continued)

During the year ended 31 December 2020, the Group entered into another land use right transfer contract with Shanghai Minhang Land Bureau to acquire a parcel of land in Shanghai in the PRC for the development of commercial buildings, hotels and food and beverages businesses at a consideration of RMB428,650,000 (equivalent to HK$511,813,000) which was fully paid by the Group and recognised as deposits paid on acquisition of property, plant and equipment.

On 17 December 2020, the Group won the bid in respect of three parcels of land situated in Shanghai, the PRC, through listing-for-sale at a total consideration of RMB3,893,000,000, for the purpose of development into an urban complex with A grade office building, serviced apartment, theme commercial building and cultural and entertainment facilities and the amount of RMB1,500,000,000 (equivalent to HK$1,781,896,000) has been recorded as deposits paid on acquisition of leasehold land and buildings.

(iii) During the year ended 31 December 2019, The Wing Fat Printing Company Limited ("Wing Fat Printing") a subsidiary of the Group entered into an agreement for acquisition of a subsidiary with a total consideration of RMB210,500,000 (equivalent to HK$235,459,000). As at 31 December 2019, consideration paid as deposit amounted to RMB189,450,000 (equivalent to HK$211,913,000), upon completion of the acquisition on 12 August 2020 as disclosed in note 37, the deposit has been utilised and further cash consideration amounting HK$28,247,000 has been paid.

(iv) During the year ended 31 December 2020, the Group entered into a subscription agreement with, among others, SIIC Financial Leasing Co., Ltd 上實融資租賃有限公司 ("SIIC Financial Leasing"), which is an associate of the Company's controlling shareholder. Pursuant to the subscription agreement the Group conditionally agreed to subscribe for a 20.0% of the enlarged register capital of SIIC Financial Leasing by injecting RMB407,942,000 in cash to SIIC Financial Leasing. SIIC Financial Leasing is an integrated credit provider based in Shanghai, the PRC. Its business includes providing finance to regional governments and its platform companies to fund their projects in local infrastructure, water supply and construction of rail transportation as well as providing automobile financing to individual customers. In December 2020, the condition precedents for completion of the acquisition as set out in the subscription agreement were fulfilled. Accordingly, the Group made a payment of RMB407,942,000 in late December 2020. On 6 January 2021, the acquisition has been completed after SIIC Financial Leasing received the amount and completed the capital injection verification process. As at 31 December 2020, the injection payment made by the Group of HK$484,607,000 has been recognised as deposit paid for acquisition of an associate. Details of this transaction are set out in the respective announcement and circular of SI Urban development on 22 January 2020 and 24 August 2020 respectively.

(v) The remaining amounts represent deposits paid by the Group in connection with the acquisition of property, plant and equipment and intangible assets for the Group's new production facilities and projects under infrastructure facilities segment. The related capital commitments are disclosed in note 41.

## 25. OTHER NON-CURRENT RECEIVABLES

As at 31 December 2019, the amount represented 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 of RMB8,260,000 (equivalent to HK$9,239,000). RMB8,260,000 of the loan receivables is repayable on 31 December 2021 and has been classified under current assets as at 31 December 2020. The loans carry fixed interest at a rate of 5% per annum.

## 26. DEFERRED TAXATION

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

| | Accelerated tax depreciation HK$'000 | Amortisation of toll road operating rights HK$'000 | Revaluation of 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$'000 | LAT on properties under development/ properties held for sale HK$'000 | Other deferred tax liabilities HK$'000 | Other deferred tax assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 165,417 | 190,586 | 3,402,066 | 1,468,290 | (103,851) | 2,904,701 | 441,960 | 56,710 | 391,415 | (174,851) | 8,742,443 |
| Exchange adjustments | (431) | (3,010) | (36,081) | (26,300) | 1,503 | (52,485) | (852) | (753) | 5,327 | (726) | (113,808) |
| (Credited) charged to profit or loss | (436) | (25,601) | 55,452 | 20,654 | 20,099 | (833,022) | (40,596) | (17,792) | 122,013 | 11,956 | (687,273) |
| Credited to other comprehensive income | – | – | – | – | – | – | – | – | 1,896 | – | 1,896 |
| At 31 December 2019 | 164,550 | 161,975 | 3,421,437 | 1,462,644 | (82,249) | 2,019,194 | 400,512 | 38,165 | 520,651 | (163,621) | 7,943,258 |
| Exchange adjustments | 1,564 | 10,484 | 96,975 | 106,867 | (6,362) | 151,572 | 4,292 | 1,841 | 56,107 | (514) | 422,826 |
| Additions through acquisition of subsidiaries | 403 | – | – | – | – | – | – | – | – | – | 403 |
| Disposal of a subsidiary (note 39) | – | – | – | – | – | (61,883) | – | – | – | – | (61,883) |
| (Credited) charged to profit or loss | (3,351) | 7,710 | (46,493) | 355,225 | 889 | (719,796) | (58,313) | (9,211) | 237,779 | 86,594 | (148,967) |
| Charged to other comprehensive income | – | – | – | – | – | – | – | – | (6,560) | – | (6,560) |
| At 31 December 2020 | **163,166** | **180,169** | **3,471,919** | **1,924,736** | **(87,722)** | **1,389,087** | **346,491** | **30,795** | **807,977** | **(77,541)** | **8,149,077** |

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:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Deferred tax liabilities | **8,545,117** | 8,446,087 |
| Deferred tax assets | **(396,040)** | (502,829) |
| | **8,149,077** | 7,943,258 |

(ii) At the end of the reporting period, the Group had unused tax losses of approximately HK$9,980 million (2019: HK$8,917 million) available for offset against future assessable profits. A deferred tax asset amounting to approximately HK$87.7 million (2019: HK$82.2 million) in respect of tax losses amounting to approximately HK$351 million (2019: HK$329 million) has been recognised. No deferred tax asset was recognised in respect of the remaining tax losses of approximately HK$9,629 million (2019: HK$8,588 million) due to the unpredictability of future profit streams. The Hong Kong tax losses of approximately HK$18.5 million (2019: HK$17.5 million) may be carried forward indefinitely and the remaining PRC tax losses of approximately HK$9,962 million (2019: HK$8,899 million) will expire in various dates in the next five years.

(iii) Under the Law of the PRC on EIT, withholding tax is imposed on dividends declared in respect of profits earned by PRC entities from 1 January 2008 onwards. At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised was approximately HK$3,023 million (2019: HK$2,924 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.

## 27. INVENTORIES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Properties under development held for sale | **46,394,251** | 42,802,007 |
| Properties held for sale | **11,321,044** | 12,355,067 |
| Raw materials | **1,361,712** | 1,257,680 |
| Work in progress | **64,165** | 52,046 |
| Finished goods | **383,544** | 224,408 |
| Merchandise held for resale | **32,727** | 14,793 |
| | **59,557,443** | 56,706,001 |

At 31 December 2020, included in the above balances were properties under development held for sale of HK$46,394,251,000 (2019: HK$42,802,007,000) which are not expected to be realised within one year.

Included in the properties held for sale as at 31 December 2020 were an amount of HK$5,533,399,000 (2019: HK$4,146,770,000) which represents properties located in first-tier cities, such as Beijing and Shanghai, the PRC and an amount of HK$5,787,645,000 (2019: HK$8,208,297,000) which represents properties located in other cities in the PRC.

Out of the above properties located in other cities in the PRC, an amount of HK$2,530,609,000 (2019: HK$5,816,235,000) had no pre-sale during the year and an amount of HK$2,265,540,000 (2019: HK$2,464,596,000) was identified as the Concerned PHFS by the management of the Group as detailed below.

As disclosed in note 4, the management of the Group identified the Concerned PHFS by reference to the cities and locations where the PHFS are located, the pre-sale status and other relevant market factors. The management of the Group assessed the net realisable values of the Concerned PHFS as at 31 December 2020, with reference to the valuations conducted by the Valuers with reference to the valuations conducted by the Valuers. The net realisable values of the Group's Concerned PHFS were arrived at by the Valuers with reference to transaction price of comparable properties in the similar or same locations with adjustments made according to nature of each property and its specific location and condition.

The Valuers represent C&W, which have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations. The Concerned PHFS were valued individually, on market value basis, which conforms to HKIS Valuation Standards 2017 published by Hong Kong Institute of Surveyors.

During the year ended 31 December 2020, in view of continuous slow turnover of the Concerned PHFS, the management of the Group, after considering the results of valuations conducted by the Valuers, has determined that the net realisable values of these properties are less than their carrying amounts and an impairment loss of HK$100,212,000 (2019: HK$145,219,000) has been recognised in the profit or loss.

At the end of the reporting period, properties under development amounting to approximately HK$47,982,194,000 (2019: HK$42,802,007,000) were not expected to be realised within twelve months from the end of the reporting period.

An impairment loss of HK$23,739,000 (2019: HK$145,414,000) has been recognised in the profit or loss in respect of the properties under development held for sale, due to the expected drop in value arising from change in development plan.

## 28. TRADE AND OTHER RECEIVABLES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Trade receivables | | |
| – Goods and services | **3,740,179** | 3,150,024 |
| – Lease receivables | **13,424** | 17,816 |
| | **3,753,603** | 3,167,840 |
| Less: allowance for credit loss | **(230,801)** | (130,154) |
| | **3,522,802** | 3,037,686 |
| Other receivables (Note iv) | **5,604,187** | 4,397,095 |
| Amounts due from related parties (Note v) | **3,667,983** | 2,011,413 |
| Guarantee deposit paid for the auction of a parcel of land (Note vi) | **534,569** | – |
| Total trade and other receivables | **13,329,541** | 9,446,194 |

As at 1 January 2019, trade receivable from contracts with customers amounted to HK$2,884,593,000.

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, unless it is specially approved. 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.

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Within 30 days | **943,183** | 947,290 |
| Within 31-60 days | **420,590** | 417,446 |
| Within 61-90 days | **540,861** | 385,387 |
| Within 91-180 days | **408,506** | 418,638 |
| Within 181-365 days | **314,677** | 344,534 |
| Over 365 days | **894,985** | 524,391 |
| | **3,522,802** | 3,037,686 |

(iii) As at 31 December 2020, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$1,674,789,000 (2019: HK$1,242,374,000) 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 2020, other receivables amounting HK$5,604,187,000 (net of allowance of HK$197,705,000) mainly represented advances to contractors, other tax receivable, sundry advance payments, prepayments and deposits.

(v) As at 31 December 2020, included in amounts due from related parties were: (i) unsecured amounts of HK$1,725,614,000 (2019: HK$1,485,674,000) due from certain associates of which an amount of HK$1,654,488,000 (2019: HK$1,273,146,000) carries fixed interest at prevailing market interest rates, (ii) an amount of HK$nil (2019: HK$112,045,000) due from a fellow subsidiary which is unsecured and interest-free and (iii) amounts of HK$1,942,369,000 (2019: HK$413,694,000) due from certain joint ventures with amounts of HK$1,787,481,000 (2019: nil) carries fixed interest at prevailing market interest rates.

(vi) An amount of RMB450,000,000 (equivalent to HK$534,569,000) represents a guarantee deposit paid for the auction of a parcel of land in Tianjin, the PRC, for a potential residential project. This deposit is refundable upon completion of the auction and entering into the land use right transfer contract. As at 31 December 2020, the Group won the auction but has not entered into the land use right transfer contract yet.

(vii) Details of impairment assessment of trade and other receivables are set out in note 53(b).

## 29. CONTRACT ASSETS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Amounts due from contract customers | **403,204** | 600,758 |

As at 1 January 2019, contract assets amounted to HK$925,371,000.

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.

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.

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

(i) Bank deposits with maturity of less than one year of HK$806,864,000 (2019: HK$1,292,335,000) have been pledged to secure the Group's general banking facilities and are therefore classified as current assets. The pledged bank deposits carry interest at fixed interest rates, ranging from 0.3% to 3% (2019: 0.3% to 3.0%) 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 0.52% to 3.4% (2019: 1.55% to 2.325%) per annum.

(iii) Bank balances (including bank deposits with maturity of less than three months) carry interest at market rates, ranging from 0.01% to 1.48% (2019: 0.0% to 4.85%) 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:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Renminbi | **236,329** | 199,849 |
| United States dollar | **1,061,082** | 851,755 |
| Hong Kong dollar | **128,685** | 93,521 |

## 31. TRADE AND OTHER PAYABLES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Trade payables (note i) | **7,304,427** | 5,525,041 |
| Bills payables | **1,770,015** | 2,101,183 |
| Other payables (note ii) | **12,447,266** | 11,877,550 |
| Total trade and other payables | **21,521,708** | 19,503,774 |

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Within 30 days | **2,931,542** | 1,463,519 |
| Within 31-60 days | **328,009** | 449,638 |
| Within 61-90 days | **271,286** | 434,901 |
| Within 91-180 days | **417,515** | 525,328 |
| Within 181-365 days | **1,633,827** | 1,520,820 |
| Over 365 days | **1,722,248** | 1,130,835 |
| | **7,304,427** | 5,525,041 |

(ii) Included in other payables as at 31 December 2020 were (a) amounts of HK$233,271,000 (2019: HK$444,319,000), due to State-owned Assets Supervision and Administration Commission of Shanghai Xuhui District (the "Xuhui SASAC") and entities controlled by the Xuhui SASAC (see note 47(I)(a)(iv)), (b) amounts of HK$1,448,000 (2019: HK$1,363,000) due to certain fellow subsidiaries, which are unsecured and have no fixed terms of repayment, (c) amounts of HK$866,508,000 (2019: HK$957,985,000) due to non-controlling interests of which the amount of HK$552,720,000 (2019: nil) carried fixed interest rates of 4.75% to 5.13% (2019: 4.5%) per annum and (d) accrued expenditure on properties under development of HK$2,597,353,000 (2019: HK$2,595,930,000).

## 32. CONTRACT LIABILITIES

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Amounts due to contract customers | (i) | **49,440** | 12,388 |
| Customers deposits from sales of properties | (ii) | **21,646,482** | 14,791,004 |
| | | **21,695,922** | 14,803,392 |

At as 1 January 2019, contract liabilities amounted to HK$15,288,349,000.

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 sale and purchase agreements entered into 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. The Group normally receives 30% to 100% of the contract value as pre-sale proceeds from property buyers when they sign the sale and purchase agreement. The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods. The revenue recognised included in the contract liabilities at the beginning of the year amounted to HK$11,116,168,000 (2019: HK$13,735,087,000).

For properties under development for sale, the Group typically provides guarantees to banks in connection with the property buyers' mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the property buyer's deposits and sell the property to recover any amounts paid by the Group to the bank. Unless there is significant drop in the market price, which is remote as considered by the directors of the Company, the Group would not be in a significant loss position in selling those properties out.

## 33. BANK AND OTHER BORROWINGS

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Bank loans | **45,549,529** | 45,407,933 |
| Other loans | **11,392,617** | 9,019,655 |
| | **56,942,146** | 54,427,588 |
| Analysed as: | | |
| Secured | **16,940,772** | 17,148,492 |
| Unsecured | **40,001,374** | 37,279,096 |
| | **56,942,146** | 54,427,588 |
| Carrying amount repayable: | | |
| Within one year | **13,755,345** | 19,443,750 |
| More than one year but not more than two years | **13,828,740** | 9,071,622 |
| More than two years but not more than five years | **20,714,538** | 19,242,568 |
| Over five years | **8,643,523** | 6,669,648 |
| | **56,942,146** | 54,427,588 |
| Less: amounts due within one year shown under current liabilities | **(13,755,345)** | (19,443,750) |
| | **43,186,801** | 34,983,838 |
| Floating rate | | |
| – expiring within one year | **11,030,811** | 13,537,026 |
| – expiring beyond one year | **32,767,004** | 29,885,870 |
| Fixed rate | | |
| – expiring within one year | **2,724,534** | 5,906,724 |
| – expiring beyond one year | **10,419,797** | 5,097,968 |
| | **56,942,146** | 54,427,588 |

Notes:

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

| | 2020 | 2019 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **0.80%-7.50%** | 0.80%-7.50% |
| Variable-rate borrowings | **0.80%-8.78%** | 0.80%-8.78% |

(ii) Included in the Group's bank borrowings is an amount of HK$8,477 million (2019: HK$9,379 million) drawn under syndicated loan facilities of HK$8,477 million (2019: HK$9,379 million) obtained by the Group. Transaction costs of approximately HK$21 million (2019: HK$12.6 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 2020, the carrying value of such bank borrowings was approximately HK$8,477 million (2019: HK$9,379 million).

(iii) Included in other loans are advanced bonds and medium term notes (the "Bonds and Notes") with an aggregate amount of HK$10,750,589,000 (2019: HK$8,144,696,000) issued by non-wholly owned subsidiaries of the Group (the "Issuers") in the PRC, which are listed on Shanghai Stock Exchange. The Bonds and Notes with an aggregate principal amount of RMB9,300,000,000 (2019: RMB7,500,000,000), are unsecured and have maturities of three to seven years (2019: five to seven years) falling due between 2021 and 2023 (2019: 2021 and 2022). The bondholders have the rights to request the Issuers to redeem the bonds at their third to fifth anniversary. The Bonds and Notes carry interest at fixed rates of 3.49% to 4.6% per annum or a variable rate of Shanghai Interbank Offered Rate plus 1.00% per annum (2019: a fixed rate of 3.90% to 4.6% per annum or a variable rate of Shanghai Interbank Offered Rate plus 1.00% per annum). The range of effective interest rates applied to the Bonds and Notes range from 3.62% to 4.75% per annum (2019: 4.09% to 5.92% per annum).

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

## 34. LEASE LIABILITIES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Lease liabilities payable:** | | |
| Within one year | **113,239** | 100,762 |
| Within a period of more than one year but not more than two years | **87,770** | 93,492 |
| Within a period of more than two years but not more than five years | **201,810** | 140,991 |
| Within a period of more than five years | **28,256** | 27,547 |
| | **431,075** | 362,792 |
| Less: Amounts due for settlement with 12 months shown under current liabilities | **(113,239)** | (100,762) |
| Amounts due for settlement after 12 months shown under non-current liabilities | **317,836** | 262,030 |

The weighted average incremental borrowing rates applied to lease liabilities range from 3.75% to 4.90% per annum (2019: 4.75% to 5.07% per annum).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | HKD HK$'000 | RMB HK$'000 |
|---|---|---|
| As at 31 December 2020 | **5,511** | **224,453** |
| As at 31 December 2019 | **12,630** | **246,776** |

## 35. SHARE CAPITAL

| | Number of ordinary shares | Amount HK$'000 |
|---|---|---|
| **Ordinary shares, issued and fully paid:** | | |
| At 1 January 2019, 31 December 2019 and 31 December 2020 | **1,087,211,600** | **13,649,839** |

## 36. SHARE-BASED PAYMENT TRANSACTIONS

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

### (I) SIHL Scheme

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 25 May 2012. The SIHL 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 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 of director (the "Board") may approve from time to time.

According to the SIHL 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 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 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 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 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 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 Scheme.

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (II) 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)* As at 31 December 2019, the 27,750,000 shares of the SI Urban Development in respect of which options had been granted and remained outstanding, representing 0.58% of the shares of the SI Urban Development in issue at that date.

The following table discloses movements of share options granted during the year:

| | | | Number of shares issuable under the share options | | |
|---|---|---|---|---|---|
| Grantees | Date of grant | Exercised price per share HK$ | Outstanding at 1.1.2020 | Lapsed during the period | Outstanding at 31.12.2020 |
| Category 1: Directors of SI Urban Development | 24.9.2010 | 2.98 | 21,000,000 | (21,000,000) | – |
| Category 2: Employees of SI Urban Development | 24.9.2010 | 2.98 | 6,750,000 | (6,750,000) | – |
| Total for all categories | | | 27,750,000 | (27,750,000) | – |

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (II) SI Urban Development Scheme (continued)

*(b)* (continued)

Share options granted in September 2010 were 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 were vested)

No share option was granted since year 2010. Share options granted in year 2010 are vested in three tranches over two years, with 40% of the options granted were vested on the date of grant, 30% vested on the first anniversary of the date of grant and the remaining 30% vested on two years from the date of grant. All the share options under the Scheme were vested and the related expenses were recognised in profit or loss in previous years.

On 23 September 2020, the outstanding share options expired and the balance of share-based payments reserve of HK$31,892,000 was transferred to retained profits in the consolidated statement of changes in equity.

### (III) 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.

## 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (IV) 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.

## 37. ACQUISITION OF SUBSIDIARIES

Except for below acquisition, the Group has no other significant acquisitions during the year.

On 12 August 2020, Wing Fat (Dongguan) Printing Co., Ltd and Zhejiang Rong Feng Paper Co., Ltd ("Zhejiang Rong Feng"), two wholly owned subsidiaries of the Group, completed the acquisition of 90% and 10% equity interests in Wuxi Foreign Trade Printing Co. Ltd ("Wuxi Foreign Trade") respectively at a total cash consideration of RMB210,500,000 (equivalent to HK$240,160,000). The acquisition has been accounted for as acquisition of business using the acquisition method.

Wuxi Foreign Trade is principally engaged in the manufacture and sale of pharmaceutical package, and is based in Wuxi City, Jiangsu Province, the PRC.

**Consideration transferred**

| | HK$'000 |
|---|---|
| Cash paid | 28,247 |
| Deposit paid at 31 December 2019 | 211,913 |
| | 240,160 |

**Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:**

| | HK$'000 |
|---|---|
| Property, plant and equipment | 76,966 |
| Right-of-use assets | 32,701 |
| Inventories | 19,019 |
| Trade and other receivables | 51,867 |
| Bank balances and cash | 22,649 |
| Trade and other payables | (21,240) |
| Taxation payable | (1,093) |
| Bank borrowings | (13,691) |
| | 167,178 |
| **Goodwill arising on acquisition** | |
| Consideration transferred | 240,160 |
| Less: Net assets acquired | (167,178) |
| | 72,982 |
| **Net cash outflow arising on acquisition** | |
| Cash consideration paid | 28,247 |
| Less: bank balances and cash acquired | (22,649) |
| | 5,598 |

Included in the profit for the year ended 31 December 2020 were revenue of HK$72,328,000 and net profit of HK$6,714,000, attributable to the additional business generated by Wuxi Foreign Trade. No proforma information are disclosed in view that the impact of the acquisition on the Group's revenue and profit after tax for the year ended 31 December 2020 is insignificant.

Apart from the aforementioned acquisition, the net cash outflow arising from acquisition of other subsidiary during the year ended 31 December 2020 amounted to HK$15,285,000.

## 38. ASSETS CLASSIFIED AS HELD FOR SALE

(i) On 31 December 2018, the directors of SIIC Environment resolved to dispose of one of its subsidiaries. Negotiations with several interested parties were subsequently taken place. The assets and liabilities attributable to the subsidiary, which were expected to be sold within twelve months, had been classified as a disposal group held for sale in accordance with HKFRS 5, and are presented separately in the consolidated statement of financial position since and as at 31 December 2018.

During the years ended 31 December 2019 and 2020, the disposal has not yet been completed as the Group has been in the process of finalising the payment plan with the contracted Vendor, which is the non-controlling shareholder of that subsidiary. The Group entered into a supplementary agreement with the non-controlling shareholder on top of the previously signed sales and purchase agreement to extend the expected completion date of the disposal from 2019 to January 2020 due to renegotiation of consideration payment terms. Furthers, due to the outbreak of the Covid-19, a further negotiation on the payment plan has been taking place and the Group expects to complete the disposal in the second half of 2021. Therefore, the assets and liabilities attributable to the subsidiary are presented separately in the consolidated statement of financial position as at 31 December 2019 and 2020.

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:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Trade and other receivables | **31,157** | 17,327 |
| Receivables under service concession arrangements | **218,828** | 208,433 |
| Other receivables | **52** | 36 |
| Inventories | **559** | 323 |
| Total assets classified as held for sale | **250,596** | 226,119 |
| Trade and other payables, and total liabilities associated with assets classified as held for sale | **(180,428)** | (174,715) |

## 38. ASSETS CLASSIFIED AS HELD-FOR-SALE (continued)

(ii) On 30 June 2020, the management of the Group resolved to dispose of an associate. Negotiations with several interested parties have taken place. The interest in an associate, which is expected to be sold within twelve months, has been classified as an asset held for sale with a carrying amount of HK$78,076,000, and is presented separately in the consolidated statement of financial position as at 31 December 2020.

The proceeds of disposal are expected to exceed the carrying amount of the interest in the associate and, accordingly, no impairment loss has been recognised on the classification of the asset held for sale.

## 39. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2020, SI Urban Development and Hengda Real Estate Group Changsha Zhiye Company Limited ("Hengda Changsha") reached settlement in respect of an appeal (the "Appeal") and entered into a settlement agreement (the "Disposal Settlement Agreement"). Pursuant to Disposal Settlement Agreement, Hengda Changsha undertook, among others, to continue to perform the Agreement on or before 30 October 2020. On 25 August 2020, The Supreme People's Court of The PRC issued a consent judgment (the ''Disposal Consent Judgment") in respect of the Disposal Settlement Agreement in accordance with the stipulations of the Civil Procedure Law of the PRC 中華人民共和國民事訴訟法 (the "Civil Procedure Law"). Immediately after the Disposal Consent Judgment took effect after being signed by both parties, the Appeal would terminate accordingly. In addition, the Group also entered into a settlement agreement with Evergrande Real Estate Group Limited 恒大地產集團有限公司 ("Evergrande Holdco") (the "Evergrande Settlement Agreement"), being the sole shareholder of Hengda Changsha, pursuant to which Evergrande Holdco, agreed, among others, to guarantee the payment obligations of Hengda Changsha under the Disposal Consent Judgment. Details of the terms included in the Disposal Settlement Agreement and the Evergrande Settlement Agreement are set out in SI Urban Development's announcement dated 26 August 2020. Following Hengda Changsha performed all of its payment obligations under the Disposal Consent Judgment, and the Group completed its obligations for preparation of completion under the Agreement and the Disposal Consent Judgment, the Group ceased to have any effective control over Hunan Qianshuiwan since 29 December 2020.

## 39. DISPOSAL OF SUBSIDIARIES (continued)

The net assets of Hunan Qianshuiwan at the disposal date are as follows:

| | HK$'000 |
|---|---|
| **Consideration:** | |
| Cash received (Note) | 605,267 |
| Deposit received in 2019 | 220,359 |
| | 825,626 |
| **Analysis of assets and liabilities over which control was lost:** | |
| Property, plant and equipment | 7,534 |
| Pledged bank deposits | 1,107 |
| Inventories | 482,182 |
| Trade and other receivables | 119,466 |
| Prepaid taxation | 7,584 |
| Bank balances and cash | 1,841 |
| Trade and other payables | (17,551) |
| Amount due to a non-controlling shareholder | (240,273) |
| Contract liabilities | (1,990) |
| Deferred tax liabilities | (61,883) |
| Taxation payable | (17,480) |
| Net assets disposed of | 280,537 |
| **Gain on disposal of Hunan Qianshuiwan:** | |
| Total consideration | 825,626 |
| Net assets disposed of | (280,537) |
| Non-controlling interests disposal of | 92,577 |
| Gain on disposal of a subsidiary | 637,666 |
| **Net cash inflow arising on the disposal:** | |
| Cash received | 605,267 |
| Less: bank balances and cash disposed of | (1,841) |
| | 603,426 |

Note: The cash received comprises of the remaining consideration of RMB445,900,000 (equivalent to approximately HK$514,172,000) and total default interests of approximately RMB79,000,000 (equivalently to approximately HK$91,095,000) pursuant to the Disposal Consent Judgment.

Apart from the aforementioned disposal, the net cash inflow arising from disposals of other subsidiaries during the year ended 31 December 2020 amounted to HK$20,691,000.

## 40. OPERATING LEASING ARRANGEMENTS

### The Group as lessor

All of the Group's investment properties have committed tenants for the next two to ten years, certain of which with an option to renew the lease after that date at which time all terms are renegotiated.

Undiscounted lease payments receivable on leases are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within one year | **1,003,395** | 1,012,228 |
| In the second year | **655,358** | 610,219 |
| In the third year | **514,381** | 507,967 |
| In the fourth year | **378,860** | 422,098 |
| In the fifth year | **336,449** | 326,800 |
| After five years | **848,930** | 849,401 |
| | **3,737,373** | 3,728,713 |

## 41. CAPITAL COMMITMENTS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of | | |
| – acquisition of property, plant and equipment and intangible assets | **50,583** | 88,489 |
| – additions in properties under development held for sale | **11,260,174** | 12,741,072 |
| – investments in joint ventures | **361,861** | 1,779,083 |
| – acquisition of land use right | **2,842,718** | – |
| – additions in construction in progress | **1,090,826** | 1,137,001 |
| – investment in an associate | **–** | 53,691 |
| – others | **–** | 14,862 |
| | **15,606,162** | 15,814,198 |

The Group's share of the capital commitments made jointly with other joint venture relating to its joint venture, Wuhan Gengcheng, but not recognised at the end of the reporting period is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Commitments of capital contribution for the acquisition of a parcel of land | **651,210** | – |

## 42. CONTINGENT LIABILITIES

### Corporate guarantees

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Guarantees given to banks in respect of banking facilities utilised by | | |
| – property buyers | **7,254,139** | 7,107,918 |
| – associates/joint ventures | **1,411,370** | 2,018,774 |
| | **8,665,509** | 9,126,692 |

***Guarantees 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 has been made in the consolidated financial statements for these guarantees.

***Guarantees given to banks in respect of banking facilities utilised by associates/joint ventures***

The Group entered into agreements with banks to provide corporate guarantees with respect to bank loans granted to associates/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 judgment 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 considers that the possibility of default by these parties is remote given their strong financial background and the good quality of assets. Accordingly, no ECL under HKFRS 9 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.

***Guarantees given to banks in respect of banking facilities utilised by subsidiaries***

As at 31 December 2020, the Company granted financial guarantees to the extent of approximately HK$10,520 million (2019: HK$11,420 million) to banks in respect of banking facilities granted to its subsidiaries, out of which approximately HK$8,508 million (2019: HK$9,408 million) were utilised.

## 43. PLEDGE OF ASSETS

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

(i) investment properties with an aggregate carrying value of HK$10,334,774,000 (2019: HK$9,792,486,000);

(ii) leasehold land and buildings with an aggregate carrying value of HK$70,816,000 (2019: HK$123,539,000);

(iii) plant and machineries with an aggregate carrying value of HK$192,379,000 (2019: HK$22,590,000);

(iv) One toll road operating right with a carrying value of HK$1,884,742,000 (2020: nil) as at 31 December 2019;

(v) receivables under service concession arrangements/intangible assets with an aggregate carrying value of HK$16,744,560,000 (2019: HK$14,419,408,000);

(vi) properties under development held for sale with an aggregate carrying value of HK$12,537,442,000 (2019: HK$2,869,155,000);

(vii) properties held for sale with an aggregate carrying value of HK$645,466,000 (2020: nil) for the year ended 31 December 2019;

(viii) trade receivables with an aggregate carrying value of HK$196,344,000 (2019: HK$172,688,000);

(ix) bank deposits with an aggregate carrying value of HK$806,864,000 (2019: HK$1,292,335,000);

(x) equity interests of subsidiaries with aggregate carrying value of HK$178,190,000 (2019: nil); and

(xi) land use right included in right-of-use assets with aggregate carrying value of HK$1,074,000 (2019: nil).

## 44. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate a defined contribution retirement benefits scheme for their qualifying employees pursuant to the Occupational Retirement Schemes Ordinance. To comply with the Mandatory Provident Fund Schemes Ordinance, a Mandatory Provident Fund Scheme was also established. The assets of both schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the consolidated statement of profit or loss represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the defined contribution retirement benefits scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

The employees employed by the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the end of the reporting period, no forfeited contributions were available to reduce the contribution payable in future years.

The total expense recognised in profit or loss of HK$188,241,000 (2019: HK$288,408,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

## 45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

### (I) Connected persons

(a) During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. Save as disclosed in elsewhere in these consolidated financial statements, 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 | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Transactions** | | | |
| Ultimate holding company | Expenses relating to short-term leases and leases of low-value assets (Note i) | **2,023** | 1,929 |
| Fellow subsidiaries | Expenses relating to short-term leases and leases of low-value assets (Note i) | **50,491** | 49,641 |
| Associate | Interest income received by the Group (Notes ii and iii) | **32,175** | 34,800 |
| **Balance** | | | |
| *Non-controlling shareholders of subsidiaries:* | | | |
| Associate | Loan provided by the Group (Note ii and iii) | **689,000** | 717,377 |
| Mori Building Shanghai | Loan provided to the Group (Note v) | **493,229** | – |
| The Xuhui SASAC and entities controlled by the Xuhui SASAC | Non-trade payables by the Group (note iv) | **233,271** | 444,319 |

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.

## 45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (I) Connected persons (continued)

(a) (continued)

Notes: (continued)

(ii) 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 January 2019, Hu-Ning Expressway agreed to extend the above shareholder's loan on substantially the same terms, with the renewed expiry date on 20 January 2022.

In January 2020, an amount of RMB200,000,000 (equivalent to HK$223,713,000) has been repaid and Shanghai Galaxy agreed to borrow an additional shareholder's loan in the amount of RMB210,000,000 (equivalent to HK$234,899,000), the interest rate of such loan is 5% (2019: 5%) per annum. As at 31 December 2020, the ending balance of loan provided to Shanghai Galaxy included in other receivables set out in note 28 amounted to approximately HK$570 million (2019: approximately HK$535 million), giving rise to interest income amounting to HK$25,318,000 (2019: HK$25,517,000).

(iii) In June 2018, 上海申渝公路建設發展有限公司 ("Shen-Yu Highway"), a bank and Shanghai Galaxy entered into an entrusted loan contract ("2018 Entrusted Loan Arrangement"), pursuant to which Shen-Yu Highway entrusted the bank to grant a loan in the principal amount of RMB200,000,000 to Shanghai Galaxy, with a term of 12 months ending June 2019.

In June 2019, 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 2018 Entrusted Loan Arrangement of Shen-Yu Highway on substantially the same terms with the principal amount of the loan being revised to RMB160,000,000, with a term of 12 months ended June 2020.

In June 2020, Shen-Yu Highway, the bank and Shanghai Galaxy entered into the third entrusted loan contract, pursuant to which Shen-Yu Highway agreed to provide a loan with the principal amount of RMB100,000,000, with a term of 12 months ending June 2021. The interest rate of such loan is 5% (2019: 5%) per annum.

As at 31 December 2020, the ending balance of loan provided to Shanghai Galaxy included in other receivables set out in note 28 amounted to approximately HK$119 million (2019: approximately HK$182 million)), giving rise to interest income amounting to HK$6,857,000 (2019: HK$9,283,000).

(iv) The amounts due to the Xuhui SASAC and entities controlled by the Xuhui SASAC included in note 31(ii) are unsecured. An amount of HK$223,713,000 included in the balance as at 31 December 2019 represented a loan advanced from an entity controlled by the Xuhui SASAC through an entrusted loan agreement administrated by a bank, which carried fixed interest ranging 7.5% to 9% per annum and is repayable in June 2021. During the year ended 31 December 2020, the balance was early repaid in full. The remaining balances are unsecured, non-interest bearing and repayable on demand.

(v) The amount due to 森大廈(上海)有限公司 ("Mori Building Shanghai") included in note 31(ii) is unsecured. The amount represents loan advanced from Mori Building Shanghai through a loan agreement, which carries fixed interest rate of 4.5% per annum.

## 45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (I) Connected persons (continued)

(b) 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 上海上實金融服務控股股份有限公司 ("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.

On 5 June 2019, Shen-Yu Highway, the bank and SIIC Financial Services 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, with the renewed expiry date on 6 June 2020. The amount was fully settled in June 2020. The interest rates of such loan was 5.5% (2019: 5.5%) per annum.

(c) On 26 September 2019, 上海躋沄基礎建設有限公司 ("Shanghai Jiyun"), an indirect wholly owned subsidiary of the Company, 上海上投資產經管有限公司 ("Shangtou Assets") and Shanghai Galaxy entered into a joint venture agreement in relation to the formation of a joint venture company, namely 上實綠色產業投資管理(上海)有限公司 ("SIGIM") in Shanghai, the PRC and SIGIM is accounted for as a joint venture using equity method. SIGIM is principally engaged in the assets and investment management in the PRC.

On 6 December 2019, SIGIM, SIIC Management (Shanghai) Co., Ltd. ("SIIC Management"), Shanghai Galaxy and 上海市再擔保有限公司 ("Shanghai FRCL") entered into a partnership agreement, pursuant to which the Partnership is formed to set up a fund namely 上實綠色能源一期股權投資基金(上海)合伙企業(有限合伙) to invest in, including but not limited to, strategic emerging industries such as new energy sources, environmentally-friendly energy and new materials by way of equity investment. SIGIM would act as the general partner while SIIC Management, Shanghai FRCL and Galaxy would act as limited partners. The total capital contribution by all partners to the partnership should be RMB190,000,000, up to 31 December 2020, the capital contribution to the fund amounted to RMB63,000,000.

(d) On 16 December 2019, SIIC Environment Tech (Hong Kong) Limited ("SIIC Environment Tech"), an indirectly wholly owned subsidiary of the Company, Eternal Way Wealth Creation Limited ("Eternal Way") and Shanghai Overseas Enterprises (BVI) Co., Ltd. ("Shanghai Overseas (BVI)") entered into a joint venture agreement in relation to the formation of a joint venture company namely Shanghai Yangtze River Delta Water Environment Investment Fund Limited ("Shanghai Yangtze River"), whereas the main purpose of setting up of Shanghai Yangtze River is to invest in Taizhou Water Group Company Limited ("Taizhou Water") through the subscription of H shares of Taizhou Water as cornerstone investor. On the same date, Shanghai Yangtze River entered into a cornerstone investment agreement with Taizhou Water and Innovax Securities Limited (being the sole global coordinator), pursuant to which Shanghai Yangtze River conditionally agreed to subscribe the shares as part of the international offering of Taizhou Water, subject to the customary terms and conditions. Shanghai Yangtze River has thereafter subscribed for 12,500,000 H-Shares at the offer price of HK$4.22 at a total consideration of HK$52,750,000, such shares representing approximately 25% of the number of the H-Shares and approximately 6.25% of the total issued share capital of Taizhou Water.

## 45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (I) Connected persons (continued)

(e) On 22 January 2020, SI Urban Development entered into a subscription agreement with SIIC Financial Leasing, Shanghai Galaxy, Shanghai Zhenchen Industrial Development Company Limited, Beijing Zhenchen Asset Management Company Limited, Happy Sincere Investment Limited and Mr. Lin Zhen pursuant to which, among other things, SSUD conditionally agreed to subscribe for 20% of the enlarged registered capital of SIIC Financial Leasing by injecting cash amounting to RMB407,942,000 into SIIC Financial Leasing, as detailed in note 24.

(f) On 21 April 2020, Hu-Ning Expressway entered into the Share Transfer Agreement with Shanghai Galaxy, pursuant to which Hu-Ning Expressway agreed to sell, and Shanghai Galaxy agreed to purchase entire 24% equity interest in an associate, Wufangzhai, at a cash consideration of RMB419,508,000, the transaction has been completed during the year ended 31 December 2020.

(g) On 30 October 2020, SIUD Shanghai Healthcare Management ("SIUD Healthcare"), an indirect non-wholly owned subsidiary of the Company, Shanghai Huashi Asset Management Company Limited and Shanghai Lingfeng Medical Management Company Limited entered into a joint venture agreement in relation to the formation of a joint venture company namely SIIC (Shanghai) Medical Cosmetology Hospital Company Limited ("SIIC Medical Cosmetology"), whereas the main purpose of setting up SIIC Medical Cosmetology to engage in the development and operation of a medical beauty institution. The total amount of investment for the establishment of the Joint Venture is RMB150,000,000 of which the amount of RMB28,500,000 shall be contributed by SIUD Healthcare.

(h) On 25 June 2018, Hu-Ning Expressway, Shanghai Luqiao Development Company Limited("Shanghai Luqiao"), Shanghai Shen-Yu and Shanghai Ji Yun (together the "Relevant Companies" and each a "Relevant Company"), each entered into the entrustment agreement with Shanghai Galaxy on the same terms pursuant to which each Relevant Company entrusted Shanghai Galaxy to manage its assets for a term of three years from the date when Shanghai Galaxy served the written notice to the Relevant Companies requesting for the provision of the initial entrustment fund under the respective entrustment agreements (the "Commencement Date") to the date immediately prior to the third anniversary of the Commencement Date (the "Expiry Date").

The total maximum amount of the entrustment funds to be provided by all these four Relevant Companies shall be no more than RMB600,000,000, provided that the maximum amount of entrustment fund from each Relevant Company would not exceed RMB200,000,000.

Shanghai Galaxy shall pay guaranteed returns calculated on a daily basis at the rate of 5% per annum on the accumulated principal of the entrustment funds. The annual caps for the aggregate amount of guaranteed returns payable to the Relevant Companies by Shanghai Galaxy under the entrustment agreements were RMB15,863,000 for the period from the Commencement Date to 31 December 2018, RMB30,000,000 for the period from 1 January 2019 to 31 December 2019, RMB30,000,000 for the period from 1 January 2020 to 31 December 2020 and RMB30,000,000 for the period from 1 January 2021 to the Expiry Date.

## 45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (I) Connected persons (continued)

(h) (continued)

If there was any revenue surplus after making the above distribution and deducting all taxes and expenses, such sum shall be divided between Shanghai Galaxy and the Relevant Companies on a 50:50 basis. The annual caps for the aggregate amount of revenue surplus payable to the Relevant Companies or Shanghai Galaxy under the entrustment agreements were RMB317,260,274 for the period from the Commencement Date to 31 December 2018, RMB600,000,000 for the period from 1 January 2019 to 31 December 2019, RMB600,000,000 for the period from 1 January 2020 to 31 December 2020 and RMB600,000,000 for the period from 1 January 2021 to the Expiry Date.

(i) On 18 September 2018, each of the above four Relevant Companies and Shanghai Galaxy separately entered into the supplementary agreement on the same terms, pursuant to which the scope within which the entrusted funds could be invested under the relevant entrustment agreement was extended. All other existing terms and conditions under the above four entrustment agreements remained unchanged and in full force and effect.

On the same date, Wing Fat Printing (Dongguan) Company Limited ("WF Dongguan"), an indirect non-wholly owned subsidiary of the Company, entered into an entrustment agreement with Shanghai Galaxy on the same terms (other than the maximum amount of entrustment fund to be provided by WF Dongguan) as those of the above four entrustment agreements (as supplemented and amended by the supplementary agreements).

The total maximum amount of the entrustment funds to be provided by all the Relevant Companies and WF Dongguan under the five entrustment agreements shall remain to be no more than RMB600,000,000, provided that the maximum amount of entrustment fund from WF Dongguan would not exceed RMB400,000,000. The annual caps for (a) the aggregate amount of guaranteed returns payable to all the Relevant Companies and WF Dongguan by Shanghai Galaxy, and (b) the aggregate amount of revenue surplus 3 payable to all the Relevant Companies and WF Dongguan or Shanghai Galaxy under all the five entrustment agreements remained the same as those under the four entrustment agreements disclosed in paragraph (h) above.

(j) On 23 December 2020, Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco"), an indirect wholly-owned subsidiary of the Company and the Company, as tenants, entered into the lease agreements (i.e. the Tuen Mun Lease Agreement relating to a 16-storey property at No. 9 Tsing Yeung Circuit, Tuen Mun, New Territories, Hong Kong, and the Harcourt Tenancy Agreement relating to a property at the whole of 26th Floor and a portion of 27th Floor of Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong), with Nanyang Enterprises Properties Limited ("Nanyang Enterprises") and International Hope Limited ("International Hope") respectively, as landlords, with a term commencing from 1 January 2020 to 31 December 2020 (both days inclusive) to renew the previous lease agreements, both of which expired by 31 December 2019, for the operation of the Group.

The monthly rentals (exclusive of rates, management fee and other outgoings) under the Tuen Mun Lease Agreement and the Harcourt Tenancy Agreement were HK$2,750,000 and HK$937,400 respectively. The annual caps, which represented the sum of (a) the rental payable by Nanyang Tobacco to Nanyang Enterprises under the Tuen Mun Lease Agreement for the period from 1 January 2020 to 31 December 2020 amounting of HK$33,000,000, and (b) the rental payable by the Company to International Hope under the Harcourt Tenancy Agreement for the period from 1 January 2020 to 31 December 2020 amounting of HK$11,248,800, were HK$44,248,800.

(k) At 31 December 2020, included in bank and other borrowings as set out in note 33, a bank borrowing amounting to approximately RMB480 million (equivalent to approximately HK$570 million) (2019: RMB460 million (equivalent to approximately HK$515 million)) was secured by properties owned by the Group and a fellow subsidiary of the Group.

(l) Details of amounts due to certain fellow subsidiaries are set out in note 31.

## 45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (II) Related parties, other than connected persons

Other than transactions and balance with connected persons, the significant transactions with other related parties during the year, and significant balances with them at the end of the reporting period, are as follows:

| Related parties | Nature of transactions and balances | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Associates:** | | | |
| 上海城開地產經紀有限公司 | Property agency fees paid by the Group | **17,736** | 49,397 |
| (Shanghai Urban Development Real Estate Agency Co., Ltd.) | Trade payables by the Group | **15,685** | 14,850 |

Details of amounts due from (to) associates are set out in notes 28 and 31, respectively.

### (III) Compensation of key management personnel

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Short-term benefits | **26,403** | 25,665 |

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

## 46. MATERIAL TRANSACTIONS AND BALANCES WITH GOVERNMENT RELATED ENTITIES

The Group itself is part of a larger group of companies under SIIC, which is controlled by the PRC government. The directors consider that the Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently 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 45, the Group also conducts business with other government related entities in the ordinary course of business. In the opinion of the directors of the Company, these transactions are considered as individually and collectively insignificant to the operation of the Group. The directors consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

## 47. GOVERNMENT GRANTS

During the year ended 31 December 2020, (i) business and other taxes refund from local tax authorities of approximately HK$185.8 million (2019: HK$209.6 million) were received and (ii) an amount of approximately HK$114.3 million (2019: HK$82.3 million) was received as incentives for investments in certain provinces in the PRC. These amounts have been included in other income.

## 48. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2020 and 2019 are as follows:

| Name of subsidiaries | 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| SI Development (Note i) | The PRC | A shares – RMB1,844,562,892 | **48.60% (note 4)** | 48.60% (note 4) | Property development and investment |
| SI Urban Development (Note ii) | Bermuda/The PRC | Ordinary shares – HK$192,253,000 | **42.89% (note 4)** | 47.41% (note 4) | Property development and investment |
| Shanghai Urban Development (Holdings) Co., Ltd. ("SUD") (Note viii) | The PRC | RMB3,200,000,000 | **59%** | 59% | Property development and investment |
| Shanghai Hu-Ning Expressway (Note iii) | The PRC | RMB3,000,000,000 | **100%** | 100% | Holding of the right to operate a toll road |
| 上海路橋發展有限公司 (Shanghai Luqiao Development Co., Ltd.) (Note iii) | The PRC | RMB1,600,000,000 | **100%** | 100% | Holding of the right to operate a toll road |
| 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 – RMB5,947,420,000 | **48.74% (note 4)** | 47.74% (note 4) | Waste water 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 | Hong Kong | Ordinary shares – HK$83,030,000 | **94.29%** | 94.29% | Manufacture and sale of packaging materials and printed products |

## 48. 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.

(v) Except for S.I. Infrastructure and SIHL Treasury, 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.

(viii) This company was established in the PRC as sino-foreign owned enterprise.

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 note 33.

### 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 | Proportionof ownership interest and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 |
| SI Development | The PRC | **51.40%** | 51.40% | **487,281** | 545,239 | **8,955,686** | 7,026,856 |
| SI Urban Development | Bermuda/The PRC | **57.11%** | 52.59% | **287,396** | 243,108 | **7,870,710** | 6,556,377 |
| SUD | The PRC | **41%** | 41% | **143,986** | 450,205 | **6,772,321** | 6,405,148 |
| SIIC Environment | The Republic of Singapore/The PRC | **51.26%** | 52.26% | **361,443** | 350,709 | **4,152,930** | 4,992,471 |
| Individually immaterial subsidiaries with non-controlling interests | | | | **424,160** | 394,764 | **10,636,970** | 7,583,896 |
| | | | | **1,704,266** | 1,984,025 | **38,388,617** | 32,564,748 |

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.

## 48. PRINCIPAL SUBSIDIARIES (continued)

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

| | SI Development (Consolidated) | | SI Urban Development (Consolidated, including SUD) | | SUD (Consolidated) | | SI Environment (Consolidated) | |
|---|---|---|---|---|---|---|---|---|
| | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 |
| Current assets | **42,314,012** | 37,445,333 | **40,481,612** | 40,084,219 | **27,053,288** | 25,784,640 | **8,587,653** | 7,242,262 |
| Non-current assets | **12,498,095** | 10,221,412 | **26,944,306** | 20,359,805 | **11,059,836** | 7,430,706 | **33,063,635** | 29,330,066 |
| Current liabilities | **(22,189,677)** | (22,769,455) | **(24,464,076)** | (21,227,410) | **(8,888,550)** | (8,280,007) | **(15,705,943)** | (11,648,575) |
| Non-current liabilities | **(13,854,845)** | (9,670,920) | **(17,448,380)** | (15,223,089) | **(11,145,100)** | (7,972,356) | **(12,635,581)** | (11,221,951) |
| Equity attributable to owners of the Company | **8,737,884** | 7,301,424 | **6,495,621** | 6,905,075 | **9,745,536** | 9,217,165 | **4,293,179** | 6,467,574 |
| Non-controlling interests | **8,955,686** | 7,026,856 | **7,870,710** | 6,556,377 | **6,772,321** | 6,405,148 | **4,152,930** | 4,992,471 |
| Non-controlling interests of Group's subsidiaries | **1,074,015** | 898,090 | **11,147,131** | 10,532,073 | **1,561,617** | 1,340,670 | **4,863,655** | 2,241,757 |

## 48. PRINCIPAL SUBSIDIARIES (continued)

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

| | SI Development (Consolidated) | | SI Urban Development (Consolidated, including SUD) | | SUD (Consolidated) | | SI Environment (Consolidated) | |
|---|---|---|---|---|---|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 |
| Revenue | 8,876,315 | 10,065,743 | 6,356,732 | 8,583,906 | 2,984,644 | 4,478,849 | 7,048,772 | 6,760,551 |
| Profit for the year | 986,149 | 1,060,776 | 740,964 | 1,219,698 | 392,355 | 1,175,146 | 1,034,644 | 791,326 |
| Other comprehensive (expense) income for the year | (794,177) | (241,296) | 360,879 | (198,050) | 878,197 | (178,691) | 341,913 | (60,473) |
| Total comprehensive income for the year | 191,972 | 819,480 | 1,101,843 | 1,021,648 | 1,270,552 | 996,455 | 1,376,557 | 730,853 |
| Profit for the year attributable to the owners of the Company | 460,736 | 358,989 | 234,369 | 357,184 | 207,199 | 647,856 | 354,320 | 265,850 |
| Profit for the year attributable to the non-controlling interests | 487,281 | 545,239 | 287,396 | 243,108 | 143,986 | 450,205 | 361,443 | 350,709 |
| Profit for the year attributable to the non-controlling interests of Group's subsidiaries | 38,132 | 156,548 | 219,199 | 619,406 | 41,170 | 77,085 | 318,881 | 174,767 |
| Total comprehensive income for the year attributable to the owners of the Company | 74,766 | 241,719 | 397,218 | 216,297 | 751,012 | 720,000 | 527,239 | 243,754 |
| Total comprehensive income for the year attributable to the non-controlling interests | 79,074 | 421,213 | 493,494 | 183,614 | 329,503 | 237,057 | 536,708 | 318,459 |
| Total comprehensive income for the year attributable to the non-controlling interests of Group's subsidiaries | 38,132 | 156,548 | 211,131 | 621,737 | 190,037 | 39,398 | 312,610 | 168,640 |
| Dividends paid to non-controlling interests | 103,993 | 31,782 | 111,361 | 59,254 | 230,389 | 116,279 | 74,210 | 78,471 |
| Net cash inflow (outflow) from operating activities | 915,301 | 238,961 | 3,248,565 | 1,218,395 | 503,849 | (807,009) | 171,830 | 169,617 |
| Net cash outflow from investing activities | (393,750) | (404,291) | (1,405,025) | (1,193,971) | (1,447,808) | (476,832) | (241,929) | (621,737) |
| Net cash (outflow) inflow from financing activities | (470,968) | 375,693 | (1,950,054) | 155,674 | 459,119 | 247,703 | 403,877 | 700,669 |
| Net cash inflow (outflow) | 50,583 | 210,363 | (106,514) | 180,098 | (484,840) | (1,036,138) | 333,778 | 248,549 |

## 49. PRINCIPAL JOINT VENTURES

Particulars of the Group's principal joint venture at 31 December 2020 and 2019 are as follows:

| Name of joint venture | Place of establishment/ operations | Percentage of registered capital attributable to the Group 2020 | 2019 | Principal activities |
|---|---|---|---|---|
| General Water | The PRC | **45%** | 45% | Joint investment and operation of water-related and environment protection businesses in the PRC |
| Shanghai Nuozhuo | The PRC | **12.7%** | 14.0% | Integrated management service |

Notes:

(i) The above joint ventures are indirectly held by the Company and are accounted for as joint ventures because the subsidiary of the Company and the joint venture partner 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 venture of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other joint ventures would, in the opinion of the directors, result in particulars of excessive length.

## 50. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2020 and 2019, which are all established in the PRC, are as follows:

| Name of associate | Form of entity | Percentage of registered capital attributable to the Group 2020 | 2019 | Principal activities |
|---|---|---|---|---|
| Shanghai Shentian | Sino-foreign joint venture | **8.86% (Note i)** | 9.79% (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 | **19.48%** | 17.63% | 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%** | 45% | Operation photovoltaic related business in the PRC and provision of asset management services |

## 50. 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 42.89% (2019: 47.41%) owned listed subsidiary.

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

(iii) 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.

## 51. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (i.e. the board of directors of the Company) for the purposes of resource allocation and performance assessment, are as follows:

| | | |
|---|---|---|
| Infrastructure facilities | – | investment in toll road projects and water-related 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 2020**

| | Infrastructure facilities HK$'000 | Real estate HK$'000 | Consumer products HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| Segment revenue – external sales | 8,538,488 | 15,233,047 | 3,366,066 | – | 27,137,601 |
| Segment operating profit (loss) | 2,319,378 | 4,280,303 | 645,941 | (5,856) | 7,239,766 |
| Finance costs | (751,423) | (1,015,628) | (2,018) | (85,316) | (1,854,385) |
| Share of results of joint ventures | 163,206 | (172) | – | – | 163,034 |
| Share of results of associates | 331,329 | 308,967 | 4,592 | – | 644,888 |
| Gain on disposal of subsidiaries/ interests in associates | 70,295 | 637,666 | 15,797 | – | 723,758 |
| Segment profit (loss) before taxation | 2,132,785 | 4,211,136 | 664,312 | (91,172) | 6,917,061 |
| Income tax expense | (388,024) | (2,351,294) | (120,377) | (134,223) | (2,993,918) |
| Segment profit (loss) after taxation | 1,744,761 | 1,859,842 | 543,935 | (225,395) | 3,923,143 |
| Less: segment profit attributable to non-controlling interests | (588,941) | (1,089,728) | (25,597) | – | (1,704,266) |
| Segment profit (loss) after taxation attributable to owners of the Company | 1,155,820 | 770,114 | 518,338 | (225,395) | 2,218,877 |

## 51. SEGMENT INFORMATION (continued)

**For the year ended 31 December 2019**

| | Infrastructure facilities HK$'000 | Real estate HK$'000 | Consumer products HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| Segment revenue – external sales | 9,093,938 | 18,649,649 | 4,601,886 | – | 32,345,473 |
| Segment operating profit | 3,047,514 | 5,887,543 | 1,359,728 | 15,391 | 10,310,176 |
| Finance costs | (750,419) | (964,967) | (2,563) | (177,858) | (1,895,807) |
| Share of results of joint ventures | 159,885 | 19 | – | – | 159,904 |
| Share of results of associates | 348,297 | (22,498) | 6,129 | – | 331,928 |
| Segment profit (loss) before taxation | 2,805,277 | 4,900,097 | 1,363,294 | (162,467) | 8,906,201 |
| Income tax expense | (607,022) | (2,595,804) | (242,345) | (127,474) | (3,572,645) |
| Segment profit (loss) after taxation | 2,198,255 | 2,304,293 | 1,120,949 | (289,941) | 5,333,556 |
| Less: segment profit attributable to non-controlling interests | (442,661) | (1,523,987) | (17,377) | – | (1,984,025) |
| Segment profit (loss) after taxation attributable to owners of the Company | 1,755,594 | 780,306 | 1,103,572 | (289,941) | 3,349,531 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

### Segment assets and liabilities

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

**At 31 December 2020**

| | **Infrastructure facilities HK$'000** | **Real estate HK$'000** | **Consumer products HK$'000** | **Unallocated HK$'000** | **Consolidated HK$'000** |
|---|---|---|---|---|---|
| Segment assets | **59,683,449** | **122,536,741** | **7,635,790** | **5,026,390** | **194,882,370** |
| Segment liabilities | **24,810,022** | **77,212,882** | **866,079** | **9,926,004** | **112,814,987** |

**At 31 December 2019**

| | Infrastructure facilities HK$'000 | Real estate HK$'000 | Consumer products HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Segment assets | 53,703,214 | 108,171,141 | 8,144,709 | 4,923,226 | 174,942,290 |
| Segment liabilities | 22,148,064 | 68,115,143 | 1,019,031 | 10,855,492 | 102,137,730 |

## 51. 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 and some other unallocated liabilities.

### Other segment information

**2020**

| | 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) | 1,056,217 | 5,269,858 | 453,135 | 7,597 | 6,786,807 |
| Depreciation and amortisation | 1,067,203 | 273,648 | 280,171 | 2,950 | 1,623,972 |
| Fair value changes on investment properties | – | (185,792) | – | – | (185,792) |
| Impairment loss on trade receivables | 1,172 | 8,226 | 91,249 | – | 100,647 |
| Impairment loss on properties held for sale | – | 100,212 | – | – | 100,212 |
| Impairment loss on properties under development held for sale | – | 23,739 | – | – | 23,739 |
| Interest income | (134,163) | (210,094) | (49,539) | (84,083) | (477,879) |
| Interests in joint ventures | 2,850,276 | 2,625,125 | – | – | 5,475,401 |
| Interests in associates | 4,958,814 | 1,940,599 | – | – | 6,899,413 |

## 51. SEGMENT INFORMATION (continued)

### Other segment information (continued)

**2019**

| | 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) | 559,136 | 371,868 | 179,271 | 3,646 | 1,113,921 |
| Depreciation and amortisation | 1,210,127 | 256,245 | 293,178 | 1,935 | 1,761,485 |
| Fair value changes on investment properties | – | 221,809 | – | – | 221,809 |
| Impairment loss on trade receivables | 262 | 26,968 | 1,617 | – | 28,847 |
| Reversal of impairment loss on trade receivables | – | (34) | (10,027) | – | (10,061) |
| Reversal of impairment loss on other receivables | – | (2,997) | – | – | (2,997) |
| Impairment loss on properties held for sale | – | 145,219 | – | – | 145,219 |
| Impairment loss on properties under development held for sale | – | 145,414 | – | – | 145,414 |
| Interest income | (149,483) | (217,696) | (69,634) | (103,385) | (540,198) |
| Interests in joint ventures | 2,525,503 | 727,043 | – | – | 3,252,546 |
| Interests in associates | 4,877,258 | 1,463,829 | 74,967 | – | 6,416,054 |

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

## 51. 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 | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| PRC | **24,791,539** | 29,033,139 |
| Asia areas, other than Hong Kong and the PRC | **720,786** | 1,388,776 |
| Hong Kong (place of domicile) | **723,444** | 962,950 |
| Other areas | **901,832** | 960,608 |
| | **27,137,601** | 32,345,473 |

| | Non-current assets (Note) | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| PRC | **64,307,680** | 54,684,205 |
| Asia areas, other than Hong Kong and the PRC | **19,727** | – |
| Hong Kong (place of domicile) | **1,315,587** | 1,318,701 |
| | **65,642,994** | 56,002,906 |

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.

## 52. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. 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 note 33, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, repurchase of shares as well as the issue of new debt or the redemption of existing debt.

## 53. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| FVTPL | | |
| Mandatorily measured at FVTPL | | |
| – Held for trading | **615,162** | 736,555 |
| – Others | **49,002** | 105,553 |
| Equity instruments at FVTOCI | **700,620** | 664,651 |
| Financial assets at amortised cost (including cash and cash equivalents) | **62,657,968** | 56,044,404 |
| **Financial liabilities** | | |
| Amortised cost | **72,871,939** | 68,085,949 |

### (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, trade and other payables and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*(i) Currency risk*

The Group mainly operates in the PRC and Hong Kong and the exposure in exchange rate risks mainly arises from fluctuations in United States dollar, Hong Kong dollar and Renminbi exchange rates. The management monitors foreign currency exposure, especially in view of the current depreciation risk for Renminbi. The management will also consider hedging significant foreign currency exposure and adopting suitable measures where necessary in order to mitigate impacts due to the depreciation of the Renminbi to the Group.

The carrying amounts of the Group's monetary assets and monetary liabilities at the reporting date that are denominated in currencies other than the functional currency of the group entities ("foreign currency") are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 |
| Renminbi (against Hong Kong dollar) | **287,595** | 211,562 | **6,573** | 600 |
| United States dollar (against Hong Kong dollar and Renminbi) | **3,652,614** | 3,645,408 | **3,033,706** | 2,847,336 |
| Hong Kong dollar (against Renminbi) | **1,822,156** | 1,511,520 | **2,072,543** | 1,698,940 |

## 53. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Market risk (continued)***

*(i) Currency risk (continued)*

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% (2019: 5%) increase and decrease in the functional currency of each group entity against the above foreign currency. 5% (2019: 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% (2019: 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.

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Increase in profit after taxation | **23,151** | 28,286 |

*(ii) Interest rate risk*

The Group's fair value and cash flow interest rate risks mainly relate to fixed and variable rates borrowings and lease liabilities 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, amounts due to non-controlling shareholder and fixed-rate bank and other borrowings 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.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk free rates. As listed in note 33, several of the Group's Shanghai interbank offered rate to specify bank loans will or may be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

## 53. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Market risk (continued)***

*(ii) Interest rate risk (continued)*

*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 points and 10 basis points (2019: 50 basis points and 10 basis points), 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 points and 10 basis points (2019: 50 basis points and 10 basis points) 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$149,269,000 (2019: HK$162,334,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate Bank Deposits and borrowings.

*(iii) Price risk*

The Group is exposed to price risk through its listed investments classified as either financial assets at FVTPL or equity instruments at FVTOCI. 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% (2019: 5%) higher/lower:

- profit after taxation for the year would increase/decrease by HK$26,861,000 (2019: HK$36,721,000) as a result of the changes in fair value of financial assets at FVTPL; and
- investment revaluation reserve would increase/decrease by HK$5,344,000 (2019: HK$5,837,000) as a result of the changes in fair value of financial assets at FVTOCI.

## 53. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

*Credit risk and impairment assessment*

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, receivables under services concession arrangements, pledged bank deposit, short-term bank deposits and bank and bank balances. 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 42.

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 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.

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 92% (2019: 90%) and 8% (2019: 10%), respectively, of the trade receivables as at 31 December 2020.

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.

The Group has concentration of credit risk in relation to amounts due from associates and joint ventures which account for 37% (2019: 30%) 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.

## 53. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Credit risk and impairment assessment (continued)***

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:

| | Notes | 12-month or Lifetime ECL | **31 December 2020 Gross carrying amount** | | 31 December 2019 Gross carrying amount | |
|---|---|---|---|---|---|---|
| | | | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 |
| **Financial assets at amortised cost** | | | | | | |
| Trade receivables (note 28) | (ii) | Lifetime ECL – not credit-impaired | **3,522,802** | | 3,037,686 | |
| | (ii) | Lifetime ECL – credit-impaired | **230,801** | **3,753,603** | 130,154 | 3,167,840 |
| Other receivables (including amounts due from related parties) (note 28) | (i) | 12-month ECL | **5,805,589** | | 2,848,802 | |
| | (i) | Lifetime ECL – not credit-impaired | **47,125** | | 828,875 | |
| | (i) | Lifetime ECL – credit-impaired | **197,705** | **6,050,419** | 97,258 | 3,774,935 |
| Receivables under service concession arrangements (note 23) | (i) | 12-month ECL | | **23,978,851** | | 20,003,560 |
| Pledged bank deposits (note 30) | (iii) | 12-month ECL | | **806,864** | | 1,292,335 |
| Short-term deposits (note 30) | (iii) | 12-month ECL | | **142,382** | | 128,365 |
| Bank balances (note 30) | (iii) | 12-month ECL | | **28,354,355** | | 27,904,781 |
| **Other items** | | | | | | |
| Contract assets (note 29) | (ii) | Lifetime ECL – not credit-impaired | | **403,204** | | 600,758 |
| Financial guarantees | (iv) | 12-month ECL | | **8,665,509** | | 9,126,692 |

Notes:

(i) For other receivables (including amounts due from related parties) 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$197,705,000 (2019: HK$97,258,000) which are credit-impaired and ECL has been provided amounting of HK$89,842,000 as at 31 December 2020, 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.

## 53. 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 2020, no material impairment on contract assets is provided based on ECL assessment, impairment allowance of HK$100,647,000 (2019: HK$28,847,000) were made on credit impaired trade receivables, which are individually assessed based on the past due status and financial background of debtors.

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 1 January 2019** | 113,413 |
| Changes due to financial instruments recognised and at 1 January 2019: | |
| – Impairment losses recognised | 28,847 |
| – Impairment losses reversed | (10,061) |
| – Write-offs | (2,045) |
| **As at 31 December 2019** | 130,154 |
| Changes due to financial instruments recognised and at 1 January 2020: | |
| – Impairment losses recognised | 100,647 |
| **As at 31 December 2020** | 230,801 |

(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 42.

*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$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2020 HK$'000 |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| Non-interest bearing | – | 15,377,072 | – | – | – | 15,377,072 | 15,377,072 |
| Fixed interest rate instruments | 4.18 | 46,329 | 88,175 | 3,631,240 | 10,852,218 | 14,617,962 | 13,697,051 |
| Variable interest rate instruments | 4.11 | 153,336 | 291,315 | 12,146,085 | 34,158,631 | 46,749,367 | 43,797,816 |
| | | 15,576,737 | 379,490 | 15,777,325 | 45,010,849 | 76,744,401 | 72,871,939 |
| Financial guarantee contracts | – | 8,665,509 | – | – | – | 8,665,509 | – |
| Lease liabilities | 4.74 | 9,883 | 19,766 | 88,948 | 332,910 | 451,507 | 431,075 |
| | | 8,675,392 | 19,766 | 88,948 | 332,910 | 9,117,016 | 431,075 |

## 53. 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$'000 | Over 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2019 HK$'000 |
|---|---|---|---|---|---|---|---|
| 2019 | | | | | | | |
| Non-interest bearing | – | 13,317,773 | – | – | – | 13,317,773 | 13,317,773 |
| Fixed interest rate instruments | 4.23 | 38,788 | 75,073 | 6,350,950 | 5,309,534 | 11,774,345 | 11,228,405 |
| Variable interest rate instruments | 5.03 | 167,865 | 315,954 | 14,790,537 | 31,336,612 | 46,610,968 | 43,539,771 |
| | | 13,524,426 | 391,027 | 21,141,487 | 36,646,146 | 71,703,086 | 68,085,949 |
| Financial guarantee contracts | – | 9,126,692 | – | – | – | 9,126,692 | – |
| Lease liabilities | 4.78 | 8,798 | 17,595 | 79,178 | 274,555 | 380,126 | 362,792 |
| | | 9,135,490 | 17,595 | 79,178 | 274,555 | 9,506,818 | 362,792 |

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

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).

## 53. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value measurement of financial instruments (continued)

| Financial assets | Fair value as at 31 December 2020 HK$'000 | Fair value as at 31 December 2019 HK$'000 | Fair value hierarchy | Valuation techniques and key inputs | Significant unobservable input(s) |
|---|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | | |
| Listed equity securities | **465,657** | 477,590 | Level 1 | Quoted bid prices in an active market | N/A |
| Corporate bonds | **149,505** | 258,965 | Level 2 | Quoted prices in the over-the-counter markets | N/A |
| Funds | **17,591** | 74,178 | Level 2 | Quoted prices in the over-the-counter markets | N/A |
| Unlisted equity securities | **31,411** | 31,375 | 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 at FVTOCI** | | | | | |
| Listed equity security | **106,882** | 116,736 | Level 1 | Quoted bid prices in an active market | N/A |
| Unlisted equity securities | **593,738** | 547,915 | 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.

## 53. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value measurement of financial instruments (continued)

*Reconciliation of Level 3 fair value measurements of financial assets*

| | Unlisted equity instruments at FVTPL HK$'000 | Unlisted equity instruments at FVTOCI HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 1 January 2019** | 31,386 | 572,430 | 603,816 |
| Fair value gain in other comprehensive income | – | 4,312 | 4,312 |
| Addition | – | 3,403 | 3,403 |
| Disposal | – | (14,066) | (14,066) |
| Exchange loss | (11) | (18,164) | (18,175) |
| **At 31 December 2019** | 31,375 | 547,915 | 579,290 |
| Fair value gain in other comprehensive income | – | 8,867 | 8,867 |
| Disposals of subsidiary | – | (17,353) | (17,353) |
| Refund of capital | – | (7,741) | (7,741) |
| Exchange gain | 36 | 62,050 | 62,086 |
| At 31 December 2020 | 31,411 | 593,738 | 625,149 |

*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.

## 54. 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.

| | Lease liabilities HK$'000 | Bank and other borrowings HK$'000 (Note) | Interests payable (included in other payables) HK$'000 | Dividend payable (included in other payables) HK$'000 | Amount due to a related parties (included in other payables) HK$'000 | Amounts due to fellow subsidiaries (included in other payables) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 | 303,750 | 51,481,497 | 156,969 | – | 1,591,506 | 1,388 | 53,535,110 |
| Financing cash flows | (97,827) | 4,152,006 | (2,924,920) | (565,350) | (3,968) | – | 559,941 |
| *Non-cash changes* | | | | | | | |
| Dividend declared (note 12) | – | – | – | 1,663,434 | – | – | 1,663,434 |
| Finance costs (including amounts capitalised in properties under development held for sale) (note 7) | 8,579 | – | 2,964,937 | – | – | – | 2,973,516 |
| Dividend in form of distribution in specie of subsidiary shares | – | – | – | (1,098,084) | – | – | (1,098,084) |
| New leases entered/lease modified | 164,627 | – | – | – | – | – | 164,627 |
| Exchange difference | (16,337) | (1,205,915) | (560) | – | (57) | (25) | (1,222,894) |
| At 31 December 2019 | 362,792 | 54,427,588 | 196,426 | – | 1,587,481 | 1,363 | 56,575,650 |
| Financing cash flows | (137,564) | (107,859) | (2,867,205) | (804,536) | (316,167) | – | (4,233,331) |
| *Non-cash changes* | | | | | | | |
| Dividend declared (note 12) | – | – | – | 963,269 | – | – | 963,269 |
| Disposal of a subsidiary | – | 13,691 | – | – | – | – | 13,691 |
| Finance costs (including amounts capitalised in properties under development held for sale) (note 7) | 17,556 | – | 2,916,753 | – | – | – | 2,934,309 |
| Dividend in form of distribution in specie of subsidiary shares | – | – | – | (158,733) | – | – | (158,733) |
| New leases entered/lease modified | 165,277 | – | – | – | – | – | 165,277 |
| Exchange difference | 23,014 | 2,608,726 | 15,006 | – | 81,273 | 85 | 2,728,104 |
| At 31 December 2020 | 431,075 | 56,942,146 | 260,980 | – | 1,352,587 | 1,448 | 58,988,236 |

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.

## 55. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in these consolidated financial statements, the Group has the following events subsequent to the end of the reporting period:

(i) Subsequent to the end of the reporting period, the Group has won the bid in a parcel of land in Xian in the PRC for a consideration of approximately RMB1.5 billion and it will be developed into an area with residential and commercial properties. Details for this successful bid for the land are set out in the SI Urban Development's announcement on 1 March 2021; and

(ii) On 15 March 2021, SIIC Environment completed the issuance of its corporate bonds on the Shanghai Stock Exchange. The aggregate size of issue of the corporate bonds is RMB1,500,000,000 at an interest rate of 3.89% per annum with the maturity date being 5 years from the date of issue. The corporate bonds have been fully subscribed by professional investors in the PRC.

## 56. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Non-Current Assets | | |
| Property, plant and equipment | **4,963** | 4,581 |
| Investments in subsidiaries | **735,055** | 735,055 |
| | **740,018** | 739,636 |
| Current Assets | | |
| Deposits, prepayments and other receivables | **6,044** | 12,828 |
| Amounts due from subsidiaries | **33,682,093** | 33,984,730 |
| Bank balances and cash | **2,082,209** | 3,373,537 |
| | **35,770,346** | 37,371,095 |
| Current Liabilities | | |
| Other payables and accrued charges | **23,365** | 27,214 |
| Amounts due to subsidiaries | **2,735,552** | 5,219,047 |
| Taxation payable | **162,647** | 158,212 |
| | **2,921,564** | 5,404,473 |
| Net Current Assets | **32,848,782** | 31,966,622 |
| Total Assets less Current Liabilities | **33,588,800** | 32,706,258 |
| Capital and Reserves | | |
| Share capital | **13,649,839** | 13,649,839 |
| Share premium and reserves | **19,938,961** | 19,056,419 |
| Total Equity | **33,588,800** | 32,706,258 |

**Zhou Jun**
*Chief Executive Officer*

**Xu Bo**
*Deputy Chief Executive Officer*

## 57. SHARE PREMIUM AND RESERVES OF THE COMPANY

| | Capital reserve HK$'000 (Note ii) | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2019 | 1,137,728 | 17,503,927 | 18,641,655 |
| Profit for the year | – | 2,078,198 | 2,078,198 |
| Dividends paid (note 12) | – | (1,663,434) | (1,663,434) |
| At 31 December 2019 | 1,137,728 | 17,918,691 | 19,056,419 |
| Profit for the year | – | 1,845,811 | 1,845,811 |
| Dividends paid (note 12) | – | (963,269) | (963,269) |
| At 31 December 2020 | 1,137,728 | 18,801,233 | 19,938,961 |

Notes:

(i) The Company's reserves available for distribution to shareholders as at 31 December 2020 comprised of retained profits of approximately HK$18,801 million (2019: HK$17,919 million).

(ii) The Company's capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong was not realised profits and is an undistributable reserve.

# FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2016 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2019 HK$'000 | **2020 HK$'000** |
| **RESULTS** | | | | | |
| Revenue | 22,131,758 | 29,520,325 | 30,412,883 | 32,345,473 | **27,137,601** |
| Profit before taxation | 7,499,270 | 9,371,656 | 8,523,183 | 8,906,201 | **6,917,061** |
| Income tax expense | (2,659,370) | (4,236,931) | (3,429,512) | (3,572,645) | **(2,993,918)** |
| Profit for the year | 4,839,900 | 5,134,725 | 5,093,671 | 5,333,556 | **3,923,143** |
| Profit for the year attributable to | | | | | |
| – Owners of the Company | 2,903,030 | 3,135,182 | 3,333,020 | 3,349,531 | **2,218,877** |
| – Non-controlling interests | 1,936,870 | 1,999,543 | 1,760,651 | 1,984,025 | **1,704,266** |
| | 4,839,900 | 5,134,725 | 5,093,671 | 5,333,556 | **3,923,143** |
| | HK$ | HK$ | HK$ | HK$ | **HK$** |
| Earnings per share | | | | | |
| – Basic | 2.673 | 2.884 | 3.066 | 3.081 | **2.014** |
| – Diluted | 2.639 | 2.882 | 3.065 | 3.081 | **2.014** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2016 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2019 HK$'000 | **2020 HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 153,259,029 | 174,382,141 | 167,419,445 | 174,942,290 | **194,882,370** |
| Total liabilities | (90,527,634) | (103,194,201) | (97,916,477) | (102,137,730) | **(112,814,987)** |
| | 62,731,395 | 71,187,940 | 69,502,968 | 72,804,560 | **82,067,383** |
| Equity attributable to owners of the Company | 37,094,036 | 41,742,566 | 41,275,296 | 40,239,812 | **43,678,766** |
| Non-controlling interests | 25,637,359 | 29,445,374 | 28,227,672 | 32,564,748 | **38,388,617** |
| | 62,731,395 | 71,187,940 | 69,502,968 | 72,804,560 | **82,067,383** |

# PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

Details of the Group's major properties held for investment purposes as at 31 December 2020 are as follows:

| Location | Term of lease | Type of use | Group's interest |
|---|---|---|---|
| 1. ShanghaiMart (上海世貿商城)<br>No. 2299 Yanan Road West,<br>Changning District, Shanghai, the PRC | Held under a land use right for a term expiring on 20 October 2049 | Commercial, Office and Expo | 21.87% |
| 2. Urban Development International Tower (城開國際大廈)<br>No. 355 Hongqiao Road,<br>Xuhui District, Shanghai, the PRC | Held under a land use right for a term expiring on 7 October 2053 | Commercial | 25.31% |
| 3. YOYO Tower (城開YOYO)<br>No. 111 and 123 Tianyaoqiao Road,<br>Xuhui District, Shanghai. the PRC | Held under a land use right with an unspecified term | Commercial | 25.31% |
| 4. Binjiang U Center (濱江城開中心),<br>east of Longteng Avenue,<br>South of Longlan Road, West of Yunjing Road,<br>Xuhui District, Shanghai, the PRC | Held under a land use right for a term expiring on 29 December 2053 and 29 December 2063 respectively | Commercial and office | 15.18% |
| 5. Phase 2 of Shanghai Youth City (上海青年城)<br>No. 1519 Husong Road, Jiuting Town,<br>Songjiang District, Shanghai, the PRC | Held under a land use right for a term expiring on 8 July 2055 | Commercial | 42.89% |
| 6. Lot No. B2, Phase I of Top City (城上城)<br>No. 1 Aoti Road, Yuanjiagang,<br>Jiulongpo District, Chongqing, the PRC | Held under a land use right for a term expiring in February 2044 | Commercial and Car Park Spaces | 42.89% |
| 7. The commercial building at Phase 3 of Youngman Point,<br>No. 2 Gan Lu Yuan Zhong Li,<br>Qingnian Road, Chaoyang District,<br>Beijing, the PRC | Held under a land use right for a term expiring on 5 February 2044 | Commercial | 42.89% |
| 8. The retail, office and basement car park portion of<br>Changning United 88 (長寧八八中心)<br>No. 88 Changning Road,<br>Changning District, Shanghai, the PRC | Held under a land use right for a term expiring on 14 August 2052 | Composite | 48.60% |
| 9. Several levels of Golden Bell Plaza (金鐘廣場)<br>No. 98 Huahai Road Central,<br>Huangpu District, Shanghai, the PRC | Held under a land use right for a term expiring on 18 November 2043 | Commercial and Office | 43.74% |
| 10. Several levels of commercial and Cultural Complex<br>of Hi Shanghai (海上海)<br>Lane 568 Feihong Road and Nos. 950, 970<br>and 990 Dalian Road,<br>Yangpu District, Shanghai, the PRC | Held under a land use right for a term expiring on 19 September 2052 | Composite | 48.60% |

# PARTICULARS OF MAJOR PROPERTIES HELD FOR INVESTMENT PURPOSES

| Location | Term of lease | Type of use | Group's interest |
|---|---|---|---|
| 11. Retail and commercial office portions of Haishanghui, 2529 Huyi Road, Jiading District, Shanghai, the PRC | Held under a land use right for a term expiring on 13 April 2054 | Commercial | 48.60% |
| 12. Tower 3 of Shanghai Industrial Investment Center（上實中心） No. 195 Xianggang East Road, Laoshan District, Qingdao, the PRC | Held under a land use right for a term expiring on 8 September 2054 | Commercial and Office | 48.60% |
| 13. 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% |
| 14. 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 tem expiring on 8 November 2050 | Commercial | 48.60% |

# GLOSSARY OF TERMS

| Term used | Brief description |
|---|---|
| Aerospace Corporation | China Aerospace Science and Technology Corporation |
| Baowu Group | BAOWU Group Environmental Resources Technology Co., Ltd. |
| Canvest Environmental | Canvest Environmental Protection Group Company Limited (HKSE stock code: 1381) |
| 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 |
| Distribution in Specie | the distribution of an interim special dividend by the Company in the from of a distribution in specie of the SIUD Shares held by the Group to the Qualifying Shareholders in proportion to their respective shareholdings in the Company on the basis of an entitlement to 1 SIUD Share for every 5 Shares held by each Qualifying Shareholder as at the Record Date |
| Galaxy Energy | SIIC Aerospace Galaxy Energy (Shanghai) Co., Ltd. |
| General Water of China | General Water of China Co., Ltd. |
| Group | the Company and its subsidiaries |
| Hu-Ning Expressway | Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. |
| 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 |
| PRC | The People's Republic of China |
| Qualifying Shareholder(s) | Shareholder(s) qualifying for the Distribution in Specie |
| Record Date | Tuesday, 29 September 2020 |
| 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 Pharmaceutical Group | Shanghai Pharmaceutical (Group) Co., Ltd. |
| Shanghai Pharmaceuticals Holding | Shanghai Pharmaceuticals Holding Co., Ltd. (HKSE stock code: 2607; SSE stock code: 600607) |
| Share(s) | ordinary share(s) of the Company |
| Shareholder(s) | shareholder(s) of the Company |

| Term used | Brief description |
|---|---|
| SI Development | Shanghai Industrial Development Co., Ltd. (SSE stock code: 600748) |
| SI Urban Development or SIUD | 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 |
| Sichuan Kemei | Sichuan Kemei Paper Co., Ltd. |
| Sichuan Shanghai Innovation Fund | Sichuan Chuanhu Cooperative Innovation Equity Investment Fund Partnership Enterprise (Limited Partnership) |
| SIHL Scheme | A new share option scheme adopted by the Company at the extraordinary general meeting held on 25 May 2012 |
| SIIC | Shanghai Industrial Investment (Holdings) Company Limited |
| SIIC Environment | SIIC Environment Holdings Ltd. (SGX stock code: BHK; HKSE stock code: 807) |
| SIIC Environment Scheme | A share option scheme adopted by SIIC Environment at the extraordinary general meeting held on 27 April 2012 |
| SIIC Financial Leasing | SIIC Financial Leasing Co., Ltd. |
| SIUD Share(s) | ordinary share(s) of SI Urban Development |
| SSE | Shanghai Stock Exchange |
| Stock Exchange or HKSE | The Stock Exchange of Hong Kong Limited |
| SUS Environment | Shanghai SUS Environment Co., Ltd. |
| Wing Fat Printing | The Wing Fat Printing Company, Limited |
| Wufangzhai | Zhejiang Wufangzhai Industrial Co., Ltd. |

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