Nanyang Holdings Limited

(Incorporated in Bermuda with limited liability) Stock Code: 212

2016

ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

Directors

\# Rudolf Bischof (Chairman)
Hung Ching Yung, JP (Managing Director)
Lincoln Chu Kuen Yung, JP, FHKIB (Deputy Managing Director)
\# Robert Tsai To Sze
* John Con-sing Yung
\# Kwan Wing Kwong Zachary
\# Wong Chi Kwong Patrick (appointed on 24 October 2016)
Jennie Chen (Financial Controller)

\# *Independent Non-Executive Directors*
* *Non-Executive Director*

Company Secretary
Lee Sheung Yee

Principal Share Registrar and Transfer Agent
Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton HM 12
Bermuda

Branch Share Registrar and Registration Office
Computershare Hong Kong Investor Services Limited
Rooms 1712–16, 17/F, Hopewell Centre
183 Queen's Road East
Hong Kong

Auditors
PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

Bankers
The Hongkong & Shanghai Banking Corporation Ltd
Shanghai Commercial Bank Ltd

Solicitors
Mayer Brown JSM

Company Website
www.nanyangholdingslimited.com

GROUP FINANCIAL HIGHLIGHTS

	2016 HK$'000	2015 HK$'000	Variance
Revenue and other income/(loss)	144,419	125,109	15%
Profit attributable to equity holders of the Company	125,840	157,131	(20%)
Profit attributable to equity holders of the Company after deducting: – changes in fair value of investment properties and related tax effects	(63,793)	(95,332)	(33%)
	62,047	61,799	0%

	2016 HK$	2015 HK$	Variance
Earnings per share	3.57	4.46	(20%)
Earnings per share – after deducting the changes in fair value of investment properties and related tax effects	1.76	1.75	1%
Final dividend per share	0.60	0.60	–
Special dividend per share	0.40	0.40	–
Dividend per share	1.00	1.00	–
Net asset value per share	100.63	101.64	(1%)

Five Year Financial Summary

	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Consolidated Income Statement					
Revenue and other income/(loss)	144,419	125,109	137,146	155,651	140,716
Operating profit	152,007	160,395	283,860	160,278	557,155
Finance income	133	2,358	–	–	–
Finance expense	(425)	(822)	(434)	(794)	(1,082)
Share of profits less losses of joint ventures and associate	(7,463)	14,896	91,002	14,558	22,188
Profit before income tax	144,252	176,827	374,428	174,042	578,261
Income tax expense	(18,412)	(19,696)	(16,670)	(11,838)	(18,629)
Profit attributable to equity holders of the Company	125,840	157,131	357,758	162,204	559,632
Dividends paid	35,250	42,314	37,015	32,902	20,644
Consolidated Balance Sheet					
Property, plant and equipment	549	798	1,033	1,140	1,119
Investment properties	2,091,080	2,031,370	1,945,200	1,742,200	1,691,730
Investments in joint ventures	101,081	104,919	104,736	260,958	212,606
Available-for-sale financial assets	1,056,750	1,169,115	1,366,156	1,431,326	1,342,745
Investment in an associate	51,772	75,261	75,412	–	–
Deferred income tax assets	–	442	593	384	102
Net current assets	265,156	223,197	202,585	229,817	168,766
Deferred income tax liabilities	(21,705)	(20,973)	(19,819)	(18,572)	(21,048)
Net assets	3,544,683	3,584,129	3,675,896	3,647,253	3,396,020
Share capital	3,523	3,526	3,526	4,113	4,129
Reserves	3,541,160	3,580,603	3,672,370	3,643,140	3,391,891
Total equity	3,544,683	3,584,129	3,675,896	3,647,253	3,396,020

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of Nanyang Holdings Limited will be held at 21st Floor, St. George's Building, 2 Ice House Street, Central, Hong Kong on Thursday, 25 May 2017 at 12:00 noon for the following purposes:

1. To receive and consider the audited Financial Statements and the reports of the Directors and the Auditor for the year ended 31 December 2016;

2. To approve the payment of a final dividend and a special dividend;

3. To re-elect retiring Directors;

4. To approve that with retrospective effect from 1 January 2017, the remuneration of Independent Non-Executive Directors and the Non-Executive Director be increased to the amounts as follows:

• the Independent Non-Executive Director who serves as Chairman of the Board and Chairman of Nomination Committee	– HK$480,000 per annum
• the Independent Non-Executive Director who serves as Chairman of Audit Committee	– HK$480,000 per annum
• the Independent Non-Executive Director who serves as Chairman of Remuneration Committee	– HK$420,000 per annum
• the Independent Non-Executive Director	– HK$420,000 per annum
• the Non-Executive Director	– HK$240,000 per annum

5. To re-appoint the Auditor and fix their remuneration.

As special business to consider and, if thought fit, pass with or without modification the following Resolutions:

As Ordinary Resolutions:

6. THAT:

   (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of the Company be generally and unconditionally approved;

(b) the aggregate number of shares which may be purchased on The Stock Exchange of Hong Kong Limited or on any other stock exchange on which shares of the Company may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for this purpose under the Hong Kong Code on Share Buy-backs pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate number of issued shares of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly;

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company; and

(ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.

7. THAT:

(a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate number of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed the aggregate of (aa) 10 per cent. of the aggregate number of issued shares of the Company at the date of passing this Resolution plus (bb) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the number of shares of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate number of issued shares of the Company at the date of passing the resolution set out as Resolution 6 above), and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company; and

(ii) the revocation or variation of the approval given by this Resolution by ordinary resolution of the shareholders in general meeting; and

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).

8. THAT the Directors of the Company be authorised to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as Resolution 7 in the notice of this meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution.

By Order of the Board

Lee Sheung Yee
Company Secretary

Hong Kong, 27 March 2017

Notes:

1. The register of members of Company will be closed from 19 May 2017 to 25 May 2017, both days inclusive, during which period no transfer of shares will be registered. For the purpose of ascertaining the shareholders' eligibility to attend and vote at the Annual General Meeting of the Company to be held on 25 May 2017, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 18 May 2017.

2. The register of members of Company will be closed from 2 June 2017 to 5 June 2017, both days inclusive, during which period no transfer of shares will be registered. For the purpose of ascertaining the shareholders' entitlement for the proposed final and special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 1 June 2017.

3. A member entitled to attend, act and vote is entitled to appoint one or more proxies to attend, act and vote instead of him. A proxy need not be a member of the Company. To be valid, an instrument appointing a proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall be deposited at the principal place of business of the Company, Room 1808, St. George's Building, 2 Ice House Street, Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting, and in default thereof the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution.

   Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting concerned, and in such event the instrument appointing a proxy shall be deemed to be revoked.

4. Corporate representatives shall before the meeting commences produce the relevant resolution of directors or other governing body or the power of attorney under which they are authorised to attend, act and vote at the meeting.

   If a member which is a corporation wishes to appoint a proxy to attend and vote at the meeting, Note 3 above shall be applicable.

5. In relation to the general mandate referred to in Resolution 7 above, the Directors have no specific proposal in mind but wish to be in a position to take advantage of any opportunities which may arise.

6. The Chairman will demand that each of the resolutions set out in the notice of this meeting be voted on by poll.

Rudolf Bischof

Chairman, Independent Non-Executive Director, Chairman of Nomination Committee, Member of Remuneration Committee and Member of Audit Committee

Mr. Rudolf Bischof, aged 75, was appointed an Independent Non-Executive Director of the Company in March 1998 and became Chairman in August 2003. He was educated in Switzerland and has been engaged in the field of asset management and private banking in Hong Kong since 1971, including several years with the former Swiss Bank Corporation. Prior to coming to Hong Kong, Mr. Bischof also worked for a leading British investment bank in London, Madrid and New York.

Hung Ching Yung, JP

Managing Director, Member of Remuneration Committee and Member of Nomination Committee

Mr. Hung Ching Yung, aged 94, has been the Managing Director of the Company for 70 years since it was founded in 1947. He studied in St. John's University and graduated from the University of Shanghai. He is now the Chairman of The Shanghai Commercial & Savings Bank, Ltd. in Taiwan. He is also a Director of Shanghai Sung Nan Textile Co. Ltd., Shanghai Commercial Bank Ltd. in Hong Kong, Paofoong Insurance Company (Hong Kong) Ltd., and The Wing On Enterprises, Ltd. He was the Founder of the Hong Kong Cotton Spinners Prevocational School and has been an Advisor of the Tung Wah Group of Hospitals since 1956 until now. He is also a director of certain subsidiaries of the Company incorporated in Hong Kong, British Virgin Islands, Liberia and Panama. He is the father of Mr. Lincoln C. K. Yung and the grandfather of Mr. John Con-sing Yung.

Lincoln Chu Kuen Yung, JP, FHKIB

Deputy Managing Director, Member of Remuneration Committee and Member of Nomination Committee

Mr. Lincoln C. K. Yung, aged 71, has been a Director of the Company for 40 years. He is an economics graduate from the Cornell University and received an MBA in accounting and finance from the University of Chicago. Mr. Yung has extensive experience in the textile industry, banking and investment, and has served on various community and government committees. He is an Honorary Advisory Vice President and Fellow of The Hong Kong Institute of Bankers and appointed an Adjunct Professor of The Hong Kong Polytechnic University (School of Accounting and Finance). Mr. Yung is currently the Honorary Chairman of Shanghai Commercial Bank Limited. He is also an Independent Director of Tai Ping Carpets International Limited, a Director of The Shanghai Commercial & Savings Bank, Ltd. and Non-Executive Vice-Chairman of Southern Textile Co. Ltd. In 2013, Mr. Yung became Chairman of Shanghai Sung Nan Textile Co. Ltd. and President of Hong Kong Wuxi Trade Association Limited. Mr. Yung is currently the Executive Vice-chairman of Federation of HK Jiangsu Community Organisations Ltd. He is also a director of certain subsidiaries of the Company incorporated in Hong Kong, British Virgin Islands, Liberia and Panama. He is the son of Mr. Hung Ching Yung and the father of Mr. John Con-sing Yung.

Robert Tsai To Sze

Independent Non-Executive Director, Chairman of Audit Committee, Member of Remuneration Committee and Member of Nomination Committee

Mr. Robert Sze, aged 76, was appointed an Independent Non-Executive Director of the Company in August 2003. He is a Fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and was a partner in an international firm of accountants with which he had practised for over 20 years. He is an Independent Non-Executive Director of a number of Hong Kong listed companies, China Travel International Investment Hong Kong Limited, Dah Sing Banking Group Limited, Dah Sing Financial Holdings Limited, Hop Hing Group Holdings Limited, Min Xin Holdings Limited and Sunwah Kingsway Capital Holdings Limited.

John Con-sing Yung

Non-Executive Director

Mr. John Yung, aged 48, was appointed a Non-Executive Director of the Company in December 2012. He holds a bachelor degree in arts and a master degree in business administration from the University of Chicago. Mr. Yung is a director of certain subsidiaries of the Company incorporated in Hong Kong and Liberia. He was also appointed as Director of The Shanghai Commercial & Savings Bank, Ltd. in Taiwan ("SCSB") since 2003. He is presently an Executive Vice President and the Chief Information Officer of SCSB, responsible for the bank's overseas expansion and relationship with other financial institutions. In May 2016, Mr. Yung was appointed a Non-Executive Director of Shanghai Commercial Bank Ltd. in Hong Kong. He has over nine years of experience in information technology and telecommunication business in the Asia Pacific region. Mr. Yung is a son of Mr. Lincoln C. K. Yung and a grandson of Mr. Hung Ching Yung.

Kwan Wing Kwong Zachary

Independent Non-Executive Director, Chairman of Remuneration Committee, Member of Audit Committee and Member of Nomination Committee

Mr. Zachary Kwan, aged 63, was appointed an Independent Non-Executive Director of the Company in September 2015. He has over 38 years of experience in the banking industry in Hong Kong. During the period from April 1976 to June 2013, Mr. Kwan worked in Shanghai Commercial Bank Limited and held various positions including Manager of Bills Department, Manager of certain branches and Head of Human Resources & Administration. He retired from Shanghai Commercial Bank Limited in June 2013.

Wong Chi Kwong Patrick
Independent Non-Executive Director, Member of Audit Committee, Member of Remuneration Committee and Member of Nomination Committee

Mr. Patrick Wong, aged 55, was appointed an Independent Non-Executive Director of the Company in October 2016. He holds a bachelor degree in laws from University of London. In 1992, Mr. Wong was admitted as a solicitor in Hong Kong and was also admitted as a solicitor in England & Wales in 1994. He was a partner of Mayer Brown JSM (formerly Johnson Stokes & Master) from 1996 to 2015 with which he had practised for over 20 years. His personal practice focuses on corporate finance and Hong Kong listed company related work.

Mr. Wong is currently the Chairman of Lingnan Education Organization Limited and a Council member of Lingnan University. He is also the Deputy Chairman of Hong Kong Productivity Council, the Deputy Chairman of The Applied Research Council of the Government of the Hong Kong Special Administrative Region and the Chairman of Review Committee on Trust Fund for Severe Acute Respiratory Syndrome.

Jennie Chen
Director and Financial Controller

Ms. Jennie Chen, aged 61, was appointed a Director of the Company in September 2003. Ms. Chen holds the position of Financial Controller and has been with the Company for 31 years. She graduated from the University of Toronto and has experience in accountancy, finance and investment, and the textile industry. Ms. Chen is a Director of Southern Textile Co. Ltd. and Shanghai Sung Nan Textile Co. Ltd. She is also a director of certain subsidiaries of the Company incorporated in Hong Kong, British Virgin Islands and Panama.

Report of The Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016.

Principal Activities and Segment Analysis of Operations

The principal activity of the Company is investment holding. The activities of its joint ventures, associate and subsidiaries are shown in Notes 14, 15 and 32 to the financial statements respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 38.

The Directors recommend the payment of a final dividend of HK$0.60 (2015: HK$0.60) per share and a special dividend of HK$0.40 (2015: HK$0.40) per share, representing a total dividend distribution of approximately HK$35.2 million (2015: HK$35.3 million). Subject to the approval by the shareholders of the Company at the forthcoming Annual General Meeting, the final and special dividends will be payable on or around 14 June 2017.

Distributable Reserves

Distributable reserves of the Company at 31 December 2016, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK$441,111,000 (2015: HK$437,085,000).

Principal Properties

Details of the principal properties of the Group are set out on page 108.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in Note 21 to the financial statements.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

Directors

The names of the Directors of the Company who held office during the year and up to the date of this report are set out on page 2. The biographical details of the Directors are set out on pages 10 to 12.

Mr. Wong Chi Kwong Patrick retires at the Annual General Meeting in accordance with Bye-law 100 of the Bye-laws of the Company and, being eligible, offers himself for re-election.

Mr. Rudolf Bischof retires by rotation in accordance with Bye-law 109(A) of the Bye-laws of the Company and, being eligible, offers himself for re-election.

Mr. Robert Tsai To Sze retires by rotation in accordance with Bye-law 109(A) of the Bye-laws of the Company and, being eligible, offers himself for re-election.

Mr. Kwan Wing Kwong Zachary retires voluntarily at the Annual General Meeting and will not offer himself for re-election.

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

Directors' Interests

As at 31 December 2016, the interests of the Directors and chief executive in the shares of the Company as recorded in the Register of Directors'/Chief Executive's Interests and Short Positions maintained under Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

	Shares of HK$0.10 each of the Company				
Name	Personal interests	Family interests	Corporate interests	Total	% of issued share capital
Hung Ching Yung	10,701,944	30,000	5,500,000 (Note)	16,231,944	46.08%
Lincoln C. K. Yung	2,240,000	10,000	–	2,250,000	6.39%
Rudolf Bischof	150,000	–	–	150,000	0.43%
John Con-sing Yung	33,000	37,000	–	70,000	0.20%

Note: As stated below, Mr. Hung Ching Yung is taken to be interested in the same 5,500,000 share owned by a substantial shareholder, Tankard Shipping Co. Inc., pursuant to the SFO.

Directors' Interests *(cont'd)*

During the year, the Company has not granted to any Directors, chief executive or their respective spouses and children under 18 years of age any rights to subscribe for shares of the Company.

No transactions, arrangements and contracts of significance in relation to the business of the Group to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or other associated corporations.

Substantial Shareholders

As at 31 December 2016, the Register of Substantial Shareholders' Interests and Short Positions maintained under Section 336 of the SFO shows that the following party, other than the Directors as disclosed above, was interested in 5 per cent or more of the issued share capital of the Company:

	Number of shares	% of issued share capital
Tankard Shipping Co. Inc.	5,500,000 (Note)	15.61%

Note: Mr. Hung Ching Yung is taken to be interested in the same 5,500,000 shares owned by Tankard Shipping Co. Inc. pursuant to the SFO.

Purchase, Sale or Redemption of Shares

During the year, the Company repurchased an aggregate of 35,500 of its shares on The Stock Exchange of Hong Kong Limited, all of which have been cancelled. The Directors believe that share buybacks will be beneficial to the shareholders as the shares are traded at a discount to the net asset value per share. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares purchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate price HK$
2016				
January	11,500	39.00	38.00	441,000
November	16,000	41.65	41.00	663,000
December	8,000	41.00	41.00	328,000
	35,500			1,432,000

Except as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company during the year.

Pre-emptive Rights

No pre-emptive rights exist under Bermuda law in relation to the issue of new shares by the Company.

Management Contracts

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

Permitted Indemnity Provisions

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

Major Suppliers and Customers
The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	66%
– five largest suppliers combined	86%

The five largest customers for the year are tenants of the Group's investment properties. Income from the largest and five largest customers combined constitutes 12% and 26% (2015: 13% and 25%) of the Group's total income from investment properties for the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Related Party Transactions
Details of related party transactions are set out in Note 30 to the financial statements. None of the transactions constitute a connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Sufficiency of Public Float
Based on the information that is publicly available and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% (2015: 25%) of the Company's issued shares at 27 March 2017.

Business Review
Business review and prospects analysis is set out on pages 26 to 27.

Auditors
The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Rudolf Bischof
Chairman

Hong Kong, 27 March 2017

Corporate Governance Report

The Board is committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Throughout the year, the Company was in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Company's Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2016.

Board of Directors

The Board of Directors (the "Board") of the Company provides leadership and control and supervises the overall direction of the Group's businesses. The day-to-day management however has been delegated to the Executive Directors.

The Board comprises eight Directors: three Executive Directors, four Independent Non-Executive Directors and one Non-Executive Director. One of the Independent Non-Executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

The Board meets regularly to review financial statements, material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All Directors have access to board papers and related materials which are provided in a timely manner. The Company Secretary keeps the minutes of Board meetings.

The Company has insurance coverage for its Directors and officers.

Board of Directors *(cont'd)*

The Board held four board meetings and an annual general meeting in 2016. Attendance of individual Directors is listed below:

		Board Meetings	Annual General Meeting
Executive Directors			
Mr. Hung Ching Yung, JP	Managing Director	4/4	1/1
Mr. Lincoln C. K. Yung, JP, FHKIB	Deputy Managing Director	4/4	1/1
Ms. Jennie Chen	Financial Controller	4/4	1/1
Independent Non-Executive Directors			
Mr. Rudolf Bischof	Chairman of the Board	4/4	1/1
Mr. Robert Tsai To Sze	Director	4/4	1/1
Mr. Kwan Wing Kwong Zachary	Director	4/4	1/1
Mr. Wong Chi Kwong Patrick (Note)	Director	1/1	N/A
Non-Executive Director			
Mr. John Con-sing Yung	Director	4/4	1/1

Note: Mr. Wong Chi Kwong Patrick was appointed on 24 October 2016.

Mr. Rudolf Bischof is the Chairman of the Board and an Independent Non-Executive Director. Mr. Hung Ching Yung is the Chief Executive Officer of the Group.

Mr. Hung Ching Yung is the father of Mr. Lincoln C. K. Yung and Mr. John Con-sing Yung is a son of Mr. Lincoln C. K. Yung.

The Independent Non-Executive Directors and Non-Executive Director are appointed for a specific term and are subject to retirement by rotation.

Directors' Continuous Professional Development

All the Directors of the Company participate in continuous professional development to ensure they are informed and aware of the amendments and updates of the Listing Rules, Hong Kong Companies Ordinance and Corporate Governance Code.

Directors are provided with written materials from time to time, they attend seminars and the Company Secretary also arranges suitable in-house training on the latest development of rules and regulations for assisting the Directors in discharging their duties.

According to the records maintained by the Company, the Directors received the following training on continuous professional development during the year.

		Material	In-house training/ seminars
Executive Directors			
Mr. Hung Ching Yung, JP	Managing Director	√	√
Mr. Lincoln C. K. Yung, JP, FHKIB	Deputy Managing Director	√	√
Ms. Jennie Chen	Financial Controller	√	√
Independent Non-Executive Directors			
Mr. Rudolf Bischof	Chairman of the Board	√	√
Mr. Robert Tsai To Sze	Director	√	√
Mr. Kwan Wing Kwong Zachary	Director	√	√
Mr. Wong Chi Kwong Patrick	Director	√	√
Non-Executive Director			
Mr. John Con-sing Yung	Director	√	√

Remuneration Committee

The Remuneration Committee was established by the Board on 25 May 2005. The written terms of which were revised on 7 December 2005, 7 May 2012 and 18 May 2012 and further revised on 2 September 2015. The Committee consists of the four Independent Non-Executive Directors, the Managing Director and the Deputy Managing Director.

Remuneration Committee *(cont'd)*

The Committee met once in 2016. Attendance of individual members is listed below:

	Attendance
Mr. Kwan Wing Kwong Zachary – Chairman of the Remuneration Committee	1/1
Mr. Rudolf Bischof	1/1
Mr. Hung Ching Yung, JP	1/1
Mr. Lincoln C. K. Yung, JP, FHKIB	1/1
Mr. Robert Tsai To Sze	1/1
Mr. Wong Chi Kwong Patrick	1/1

The principal duty of the Committee is to review and make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management. In doing this, professional advice may be sought if considered necessary. No Director or any of their associates is involved in deciding their own remuneration.

Auditors' Remuneration

For the year ended 31 December 2016, fees payable to the auditors of the Group for audit and non-audit services amounted to HK$1,675,000 and HK$867,000 respectively.

Nomination Committee

The Nomination Committee was established by the Board on 21 March 2012. The written terms of which were revised on 2 September 2015. The Committee consists of the four Independent Non-Executive Directors, the Managing Director and the Deputy Managing Director.

The Committee met once in 2016. Attendance of individual members is listed below:

	Attendance
Mr. Rudolf Bischof – Chairman of the Nomination Committee	1/1
Mr. Hung Ching Yung, JP	1/1
Mr. Lincoln C. K. Yung, JP, FHKIB	1/1
Mr. Robert Tsai To Sze	1/1
Mr. Kwan Wing Kwong Zachary	1/1
Mr. Wong Chi Kwong Patrick	1/1

Nomination Committee *(cont'd)*

The principal duty of the Committee is to review the structure, size and composition of the Board annually, to make recommendations regarding any proposed changes to complement the corporate strategy and to identify individuals suitably qualified to become Board members. The Committee also assesses the independence of Independent Non-Executive Directors and makes recommendations to the Board on the appointment or reappointment of Directors in particular the Chairman and the Chief Executive. In doing this, professional advice may be sought if considered necessary.

Board Diversity Policy

The Board adopted a board diversity policy in 2013 as it recognises and endorses the principle that the Company should have a balance of skills, experience and diversity of perspectives appropriate to the Company's business.

The Company aims to achieve diversity of its Board members through consideration of a number of factors, including but not limited to gender, age, cultural and educational background and professional experience. The Board ensures that changes to its composition can be managed without undue disruption.

The Nomination Committee will review this Policy from time to time and monitor its implementation.

Audit Committee

The Audit Committee was established by the Board on 25 September 1998. The Committee consists of the four Independent Non-Executive Directors, Mr. Robert Tsai To Sze, FCA, FCPA, Mr. Rudolf Bischof, Mr. Kwan Wing Kwong Zachary and Mr. Wong Chi Kwong Patrick.

The Committee met twice in 2016. Attendance of individual members is listed below:

	Attendance
Mr. Robert Tsai To Sze, FCA, FCPA – Chairman of the Audit Committee	2/2
Mr. Rudolf Bischof	2/2
Mr. Kwan Wing Kwong Zachary	2/2
Mr. Wong Chi Kwong Patrick (Note)	N/A

Note: Mr. Wong Chi Kwong Patrick was appointed on 24 October 2016.

Audit Committee *(cont'd)*

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and the code provision C3.3 (the "Code Provision") of the Corporate Governance Code, Appendix 14 of the Listing Rules, written terms of reference (the "Terms") which describe the authority and duties of the Audit Committee were prepared and adopted by the Board of the Company on 30 June 2005. The amendments to the Code Provision which became effective on 1 January 2009 were adopted and incorporated in the Terms by the Board of the Company on 15 April 2009 and revised on 18 May 2012 and 2 September 2015 and further revised on 2 December 2015. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, risk management and internal control systems.

During 2016, the Audit Committee met to review the 2015 annual report and accounts and the 2016 interim report and accounts and held discussions with the external auditor regarding financial reporting, compliance, scope of audit, policies for maintaining independence, thereafter reporting to the Board.

Risk Management and Internal Control

The Board acknowledges its responsibility to oversee and to ensure that sound and effective risk management and internal control systems are maintained on an ongoing basis so as to safeguard the Group's assets and the interests of shareholders. The Board is responsible for reviewing the risk management and the internal control policies and has delegated the day-to-day management of internal control and operational risks to the Executive Directors.

The Directors are satisfied with the effectiveness of the Group's internal controls and consider that the key areas of the Group's system of internal controls are reasonably implemented. The internal controls should provide reasonable but not absolute assurance against material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting and ensure effective compliance with the Listing Rules and all other applicable laws and regulations.

The Group does not have an internal audit function. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group. During the year, independent external professionals were hired to perform internal audit functions and a high-level risk assessment of the Group, which entails identifying, analysing and assessing key risks faced by the Group. By reference to a globally recognised internal controls framework, the high-level risk assessment covered all key controls including financial, compliance and operational controls and risk management systems. They concluded that there were no material control design gaps and no material or significant issues with the operating effectiveness of the risk management and control environment.

The Company has also established a whistleblowing policy under which employees who have concerns about any suspected misconduct or malpractice can raise their concern in confidence without fear of reprisal or victimisation.

Directors' Responsibility Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual results and interim results are announced in a timely manner.

The independent auditor's report states the auditors' reporting responsibilities.

Company Secretary

The Company Secretary, not being a full time employee of the Group, ensures that board procedures are followed and is responsible for advising the Board on corporate governance matters and facilitating the induction and professional development of Directors.

Shareholders' Rights

The Company established a shareholder communication policy in order to provide shareholders with information about the Company and to enable them to exercise their rights in an informed manner.

The Company has also established procedures on how Shareholders can convene a special general meeting, procedures for putting forward proposals at a general meeting by a Shareholder and procedures for Shareholders to propose a person for election as a Director. Details of these procedures and policy are available under the Corporate Governance section of the Company's website at http://www.nanyangholdingslimited.com.

On behalf of the Board

Rudolf Bischof
Chairman

Hong Kong, 27 March 2017

The Chairman's Statement

The Board of Directors of Nanyang Holdings Limited ("the Company") announces that for the year ended 31 December 2016 the Group reported a profit after taxation of HK$125.8 million. This includes a revaluation gain of investment properties at fair value totalling HK$63.8 million (2015: profit of HK$157.1 million. This included a revaluation gain of investment properties at fair value totalling HK$95.3 million). The current year's profit comprises mainly the dividend from The Shanghai Commercial & Savings Bank, Ltd., in respect of its 2015 earnings, of approximately HK$45.2 million (after deducting 20% withholding tax), the change in fair value of investment properties (including those owned by joint ventures and an associate) which resulted in a net gain of HK$63.8 million (2015: HK$95.3 million) and gains from investment portfolios, including exchange gain, of approximately HK$7.4 million. Excluding the net effect of revaluing the investment properties at fair value, 2016 would have shown a profit after tax of HK$62.0 million (2015: profit of HK$61.8 million), about the same as last year. Earnings per share were HK$3.57 (2015: HK$4.46). However, if the net effect of revaluing the investment properties at fair value had been excluded, earnings per share would have been HK$1.76 (2015: HK$1.75). The Group's net asset value per share declined slightly from HK$101.64 (at 31/12/2015) to HK$100.63 (at 31/12/2016).

The Directors recommend the payment of a final dividend of HK$0.60 per share and a special dividend of HK$0.40 per share, representing a total dividend distribution of approximately HK$35.2 million (2015: final dividend of HK$0.60 per share and a special dividend of HK$0.40 per share, representing a total dividend distribution of approximately HK$35.3 million).

Business Review and Prospects

Real Estate

Hong Kong

Local business sentiment improved. Leasing activities at our building, Nanyang Plaza, in Kwun Tong, picked up. Of the 290,000 sq.ft. of industrial/office space, presently 95.8% is leased. In 2017, there will be new space coming on stream in the vicinity. We fitted out a vacant unit with standard landlord provision and false ceiling in order to attract new tenants.

Shanghai

Performance at the joint venture, Shanghai Sung Nan Textile Co., Ltd., (owned 65% by the Company), which was a factory site converted to offices for rental, continued to be satisfactory. The total leasable area of 28,142 sq.m. is presently fully leased to third parties. The wedding banquet business of the anchor tenant, (of 21,202 sq.m. or 75.3%), has improved.

The Group's investment, a 16.7% interest in HSL China Metropolitan Fund ("Fund") which holds a service apartment in Shanghai, has been classified as an "Associate". Since the commencement of the sale of the apartment units by strata-title, it has been in line with expectation. During the year, the investment reported a loss of HK$14 million. But the balance of the revenue from almost 25% of the apartment units were received in early 2017, thus minimizes the deficit. It is expected that the gain of this project should come from the sale of the podium.

Shenzhen

Southern Textile Company Limited ("Southern"), the Group's 45% joint venture, continued to report favourable results. In 2016, Southern's management upgraded the corridors of two floors of the building which is 30 years old and installed new electrical wiring which enhanced occupancy and rental levels. Of the total leasable area of 18,300 sq.m., presently 100% is leased. In 2017, the electrical and sprinkler systems on the four upper floors of the old factory building will be replaced in phases.

Business Review and Prospects *(cont'd)*

Financial Investments

2016 was a year of surprises and unexpected events. In the first half, equity markets fell and later somewhat recovered. However, in the second half, especially following the election of the new President in the United States in November, who proposed tax cuts, deregulation and an increase in infrastructure spending, the equity markets reacted favourably. We increased U.S. and emerging markets equities and emerging market bonds and reduced cash. For the year ended 31 December 2016, the investment portfolios showed an increase of approximately 3.5%. The value of the portfolios, at the end of the period, stood at US$38.0 million or approximately HK$294.5 million.

Since the beginning of 2017, with firming growth in the U.S. and Europe and stabilizing economic indicators in China, the equity markets continued to perform satisfactorily. We increased equities further but reduced exposure to commodities. As at 20 March 2017 the latest practicable date, the portfolios increased year-to-date by approximately 4.6% and the value stood at US$39.8 million or approximately HK$309.0 million. Equities comprised 63.1% (of which 35.0% was in U.S. equities), bonds 23.7%, commodities 0.2% and cash 13.0%.

Going forward, the shift in U.S. fiscal policy, including tax reform, may bring about a broader based recovery which should be favourable for business. However, uncertainty remains as to when and how these policies would be implemented and protectionist measures taken by the new U.S. administration, populism arising in Europe and rising interest rates in the U.S. may have a dampening effect. Despite the above, we have a positive view of the markets and look forward to 2017 with guarded expectations.

The Group's investment in The Shanghai Commercial & Savings Bank, Ltd. ("SCSB") in Taiwan, representing approximately 4% of the total issued share capital, is classified under non-current assets as an available-for-sale financial asset, as there is no intention to dispose of it within 12 months of the annual report date. In 2016, the Group received net cash dividends of approximately HK$45.2 million. During the year, the SCSB share price declined but since the beginning of 2017, it has recovered to close to the previous level as has been the N.T. Dollar.

In 2016, the Taiwan Commodity Exchange held its second Diamond prize award and SCSB received second prize for Banks Trade Volume growth and Banks Trade Volume. In July 2016, the Singapore branch officially opened. Presently SCSB has 69 branches in Taiwan, one in Hong Kong, one in Vietnam and one in Singapore. They also have three representative offices, one in Jakarta, Indonesia, one in Bangkok, Thailand and one in Phnom Peng, Cambodia. SCSB holds a 57.6% interest in Shanghai Commercial Bank Limited ("SCB") in Hong Kong. Its new state-of-the-art headquarters building, at 12 Queen's Road Central, opened in the fourth quarter. SCB has 44 branches in Hong Kong, three in China and four branches overseas. The unaudited net income of SCSB for the nine months ended 30 September 2016 was approximately NT$8,625.7 million (2015 same period: net income of approximately NT$8,762.7 million), representing a slight decrease of 1.6%. Total shareholders equity at 30 September 2016 was approximately NT$115,911.6 million (30/9/2015: approximately NT$112,219.2 million), an increase of 3.3%. (These figures were extracted from SCSB's website at http://www.scsb.com.tw)

Financial Position

The Group's investment properties with an aggregate value of HK$1,942 million (31/12/2015: HK$1,892 million) have been mortgaged to a bank to secure general banking facilities. As at 31 December 2016, no bank facilities (31/12/2015: HK$40 million) was utilized. At the end of the year, the Group had net current assets of HK$265.2 million (31/12/2015: HK$223.2 million).

Employees

The Group employed 14 employees as at 31 December 2016. Remuneration is determined by reference to the qualifications and experience of the staff concerned. Salaries and discretionary bonuses are reviewed annually. The Group also provides other benefits including medical cover and provident fund.

On behalf of the Board of Directors, I would like to take this opportunity to thank all the staff for their contribution to the Group.

Rudolf Bischof
Chairman

Hong Kong, 27 March 2017

Environmental, Social and Governance Report

The Board recognises it has an overall responsibility for the Environmental, Social and Governance ("ESG") strategy and reporting of the Group. The scope of this report covers the major operations of the Group in property investment and investment holding and trading. It provides an overview of our key ESG performance in environmental protection, employment and labour practices, operating practices and community investment for the year ended 31 December 2016. It was prepared in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by The Stock Exchange of Hong Kong Limited in 2015.

We engaged our stakeholders on an ongoing basis to collect their views and expectations on our ESG performance and reporting.

Environmental Protection

The Group is committed to operating its business sustainably. We put emphasis on environmental conservation at our investment properties by enabling green initiatives to happen of which our building manager plays a key part in it. For example, as the major owner at Nanyang Plaza, we know that the building manager had energy-efficient lamps installed at carparks and common areas to enhance energy efficiency and reduce greenhouse gas (GHG) emissions. The building manager also invested in timer controls to automatically turn off the lighting at unused areas and reduce passenger lifts available for service after 7pm every day. Additionally, the building manager encourages smart water use by installing automatic sensor taps at washrooms and encourage our tenants to conserve water. Responsible waste management practices have been adopted at Nanyang Plaza to encourage reduction, reuse and recycling.

The Group continues to implement responsible office practices to raise staff awareness on environmental protection. For instance, employees are reminded to switch off idle electrical appliances, reuse envelopes and adopt double-sided printing.

Employment and Labour Practices

Employment

The Group is committed to nurturing a happy and motivated workforce to support business needs. Remuneration is determined by reference to the qualifications and experience of the staff. In addition to salaries, we provide a range of benefits including discretionary bonuses, medical cover and provident funds.

We support the wellbeing of our staff by encouraging a balance between work and life. We are committed to facilitating working arrangements accommodating employees' work, personal and family commitments. Employee engagement activities, such as Christmas party and annual lunch are arranged to foster a sense of belonging. We have a zero-tolerance against harassment and discrimination of any form.

Employment and Labour Practices *(cont'd)*

Health and Safety

Protecting health and safety of our employees is our key priority. During the reporting period, we engaged external professionals in providing fire and safety training workshops to help our employees raise awareness and equip them with necessary skills on emergency response and crisis management. In addition, maintenance and regular inspection are conducted in line with the regulations to ensure proper functioning of fire extinguishers in the event of an emergency.

Development and Training

The Group believes that talent development is critical in maintaining the business competitiveness. We offer a wide range of internal and external training courses to management for keeping up market knowledge.

Operating Practices

Supply Chain Management

The Group interacts with a number of suppliers and service providers. Adherence to social standards by suppliers and service providers forms an important part of our standard for sustainable procurement. We strive to minimise the risks associated with our supply chain, including those associated with environmental, social and governance practices, by working closely with our suppliers. We favour the procurement of environmentally and socially sustainable goods.

Product Responsibility

The Group primarily serves in property investment as well as investment holding and trading. We have engaged an internationally well-established third party company to manage our leased properties. The building manager is primarily responsible for the quality of our leased properties. However, we carry out site inspections and hold regular meetings with them so as to ensure the conditions of building services.

Complaint handling mechanisms are implemented at our leased properties with an aim to collect and address customer concerns. Complaints are documented upon receipt and followed up to improve future service quality.

The Group is committed to protecting customer privacy and has corresponding policies and procedures in place. Customer privacy data is handled with care, treated with strict confidentiality and accessible only by authorised personnel.

Operating Practices *(cont'd)*

Anti-corruption

We operate our business with integrity, transparency and accountability. We have zero tolerance for any form of corruption, bribery or fraud. This principle has been well conveyed to our employees. Our whistleblowing policy allows employees to report observed and suspected misconducts, irregularities and malpractices in a confidential manner.

Community Investment

We collaborate with charitable organisations in finding sustainable solutions to address social challenges. We supported the Computer Recycle Project organised by Caritas-Hong Kong, a non-profit making organisation aiming to address local social hardships and inequalities. We donated replaced computers from our IT upgrading project.

Regulatory Compliance

During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to areas such as environmental protection, employment and labour practices and operating practices.

Independent Auditor's Report to the Shareholders of Nanyang Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Nanyang Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 38 to 107, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Key Audit Matters

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

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Valuation of investment properties held by the Group and its joint ventures and an associate Refer to note 4.1 and 13 to the consolidated financial statements As at 31 December 2016, the Group's investment properties were stated at fair value of HK$2,091,080,000 and the fair value of investment properties held by joint ventures and an associate attributable to the Group amounted to HK$144,946,000. Management has engaged independent external valuers to perform valuation of the investment properties. The valuation of these investment properties requires significant judgement and estimates by management and the valuers. It is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property.	Our audit procedures in relation to the valuation of investment properties included: • We evaluated the valuers' qualifications and expertise and read their terms of engagement with the Group to assess whether there were any matters that affected their objectivity and scope of work. • We obtained the valuation reports for all properties and assessed whether the valuation approach adopted was suitable for determining the fair value for the purpose of the financial statements. • We held discussions with the valuers to assess the valuation approach and the key assumptions (including adjustments to comparable market data, discount rates, capitalisation rates and estimated market rent). We also involved our in-house valuation experts in the assessment of the valuation of selected investment properties. • We performed testing over the source data provided by the Group to the external valuers, on a sample basis, to satisfy ourselves of the accuracy of the property information used by the valuers.

Key Audit Matters *(cont'd)*

Key Audit Matter	*How our audit addressed the Key Audit Matter*
In determining a property's valuation, valuers used either of the direct comparison approach, discounted cash flow method or income capitalisation approach. They took into account property-specific information such as the location and age of the properties, adjustments to comparable market transactions, current tenancy agreements and rental income. They applied assumptions for discount rates, capitalisation rates and estimated market rent which were influenced by prevailing markets yields and comparable market transactions, to arrive at the final valuation. Due to the significant judgement and estimates involved, specific audit focus was placed on this area.	• We assessed the reasonableness of the comparable market data and assumptions used by the external valuers by comparing these to our knowledge of the property market and published external data. We found that the valuation was supported by the available audit evidence.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

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

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

The Audit Committee assists directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(cont'd)*

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(cont'd)*

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Ka Yee.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2017

Consolidated Income Statement

For the Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	5	137,124	132,069
Other income/(loss)	5	7,295	(6,960)
Revenue and other income/(loss)	5	144,419	125,109
Direct costs	6	(16,401)	(15,343)
Gross profit		128,018	109,766
Administrative expenses	6	(34,757)	(34,153)
Other operating expenses	6	(900)	(1,075)
Changes in fair value of investment properties		59,646	85,857
Operating profit		152,007	160,395
Finance income	8	133	2,358
Finance expense	8	(425)	(822)
Share of profits of joint ventures	14	6,568	10,331
Share of (loss)/profit of an associate	15	(14,031)	4,565
Profit before income tax		144,252	176,827
Income tax expense	9	(18,412)	(19,696)
Profit attributable to equity holders of the Company		125,840	157,131
Earnings per share (basic and diluted)	10	HK$3.57	HK$4.46
Dividends	11	35,226	35,262

The notes on pages 44 to 107 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Profit for the year	125,840	157,131
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Fair value losses on available-for-sale financial assets	(112,890)	(195,887)
Share of other comprehensive income of joint ventures and an associate accounted for under equity method	(16,240)	(9,644)
Currency translation differences	526	(1,053)
Other comprehensive income for the year, net of tax	(128,604)	(206,584)
Total comprehensive income attributable to equity holders of the Company	(2,764)	(49,453)

The notes on pages 44 to 107 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	549	798
Investment properties	13	2,091,080	2,031,370
Investments in joint ventures	14	101,081	104,919
Investment in an associate	15	51,772	75,261
Available-for-sale financial assets	17	1,056,750	1,169,115
Deferred income tax assets	26	–	442
		3,301,232	3,381,905
Current assets			
Trade and other receivables	18	11,273	9,797
Financial assets at fair value through profit or loss	19	251,172	243,447
Tax recoverable		–	2
Cash and bank balances			
– Pledged bank deposits	20	–	38,416
– Cash and cash equivalents	20	58,896	44,696
		321,341	336,358
Total assets		3,622,573	3,718,263
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	3,523	3,526
Other reserves	22	837,486	974,873
Retained profits	22	2,703,674	2,605,730
Total equity		3,544,683	3,584,129

Consolidated Balance Sheet *(cont'd)*

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	26	21,705	20,973
Current liabilities			
Trade and other payables	23	55,724	54,453
Current income tax liabilities		461	1,415
Short term bank loans – secured	24	–	57,000
Derivative financial liability	25	–	293
		56,185	113,161
Total liabilities		77,890	134,134
Total equity and liabilities		3,622,573	3,718,263

The notes on pages 44 to 107 are an integral part of these financial statements.

The financial statements on pages 38 to 107 were approved by the Board of Directors on 27 March 2017 and were signed on its behalf.

Hung Ching Yung
Director

Lincoln C. K. Yung
Director

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Balance at 1 January		3,584,129	3,675,896
Comprehensive income:			
Profit for the year		125,840	157,131
Other comprehensive income:			
Fair value losses on available-for-sale financial assets	22	(112,890)	(195,887)
Share of other comprehensive income of joint ventures and an associate accounted for under equity method	22	(16,240)	(9,644)
Currency translation differences	22	526	(1,053)
Total other comprehensive income, net of tax		(128,604)	(206,584)
Total comprehensive income		(2,764)	(49,453)
Transactions with owners:			
Final dividend relating to 2015/2014	22	(21,150)	(21,157)
Special dividend	22	(14,100)	(21,157)
Shares repurchased and cancelled		(1,432)	–
Total transactions with owners		(36,682)	(42,314)
Balance at 31 December		3,544,683	3,584,129

The notes on pages 44 to 107 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Net cash generated from operations	27(a)	26,024	39,631
Interest paid		(425)	(822)
Income tax paid		(4,570)	(1,098)
Net cash generated from operating activities		21,029	37,711
Cash flows from investing activities			
Proceeds from sales of available-for-sale financial assets		–	101
Purchase of plant and equipment and investment properties		(68)	(348)
Dividends received from available-for-sale financial assets	27(b)	45,223	41,270
Dividend received from a joint venture	27(b)	3,257	3,341
Return of capital from a joint venture		–	1,507
Net cash inflow from investing activities		48,412	45,871
Cash flows from financing activities			
Repurchase of own shares		(1,432)	–
Dividends paid		(35,250)	(42,314)
Decrease/(increase) in pledged bank deposits		38,416	(2,585)
Repayment of bank loans		(57,000)	(41,483)
Net cash outflow from financing activities		(55,266)	(86,382)
Net increase/(decrease) in cash and cash equivalents		14,175	(2,800)
Cash and cash equivalents at 1 January		44,696	47,511
Currency translation difference		25	(15)
Cash and cash equivalents at 31 December	20	58,896	44,696

The notes on pages 44 to 107 are an integral part of these financial statements.

1 General information

Nanyang Holdings Limited is a limited liability company incorporated in Bermuda. The address of its office in Hong Kong is Room 1808 St George's Building, 2 Ice House Street, Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (together the "Group") are engaged in property investment and investment holding and trading.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2017.

2 Significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of Nanyang Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

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

2 Significant accounting policies *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(a) **Amendments to standards that are effective in 2016 and are relevant to the Group's operations**

During the year ended 31 December 2016, the Group has adopted the following amendments to standards which are mandatory for accounting periods beginning on 1 January 2016:

HKAS 1 (Amendments)	Disclosure Initiative
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
Annual Improvements Project	Annual Improvements 2014

The adoption of these amendments to standards does not have any significant change to the accounting policies or any significant effect on the results and financial position of the Group.

2 Significant accounting policies *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(b) **New standards and amendments to standards that are not yet effective and have not been early adopted by the Group**

The following new standards and amendments to standards have been published which are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods but have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKAS 7 (Amendments)	Disclosure Initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	To be determined

The Group has commenced an assessment of the expected impact of the new standards as set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

2 Significant accounting policies *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(b) **New standards and amendments to standards that are not yet effective and have not been early adopted by the Group** *(cont'd)*

HKFRS 9, 'Financial instruments' (cont'd)

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, equity instruments currently classified as available-for-sale (AFS) financial assets for which a fair value through other comprehensive income (FVOCI) election is available and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The Group does not expect a significant impact under the new hedge accounting rules as the Group does not have any such hedging.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group does not expect the new guidance to have a significant impact on the Group's financial statements.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

2 Significant accounting policies *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(b) **New standards and amendments to standards that are not yet effective and have not been early adopted by the Group** *(cont'd)*

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

The Group does not expect any significant impact of HKFRS 15 as its major source of revenue is rental income which is excluded from the scope of the new standard.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$7,740,000, see note 28. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2 Significant accounting policies *(cont'd)*

2.2 Subsidiaries

(a) **Consolidation**

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

(i) **Business combinations**

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

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

Acquisition-related costs are expensed as incurred.

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

2 Significant accounting policies *(cont'd)*

2.2 Subsidiaries *(cont'd)*

(a) **Consolidation** *(cont'd)*

(i) **Business combinations** *(cont'd)*

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

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

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

(ii) **Changes in ownership interests in subsidiaries without change of control**

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

(iii) **Disposal of subsidiaries**

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

2 Significant accounting policies *(cont'd)*

2.2 Subsidiaries *(cont'd)*

(b) **Separate financial statements**

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

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

2.3 Joint arrangements

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 Significant accounting policies *(cont'd)*

2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The existence of significant influence is also usually evidenced by the representation on the board of directors or equivalent governing body of the entity, and participation in policy-making processes. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

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

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

2 Significant accounting policies *(cont'd)*

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports and analysed from a business prospective.

2.6 Foreign currency translation

(a) **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional currency and the Group's presentation currency.

(b) **Transactions and balances**

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or expense'. All other foreign exchange gains and losses are presented in the income statement within 'other operating expenses'.

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in other comprehensive income.

2 Significant accounting policies *(cont'd)*

2.6 Foreign currency translation *(cont'd)*

(b) **Transactions and balances** *(cont'd)*

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

(c) **Group companies**

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

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

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

- all resulting exchange differences are recognised in other comprehensive income.

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

2 Significant accounting policies *(cont'd)*

2.7 Property, plant and equipment

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

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

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

Leasehold land classified as finance lease	Shorter of remaining lease term of 35 years or useful life
Buildings	25 years
Others	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised in the income statement.

2 Significant accounting policies *(cont'd)*

2.8 Investment properties

Investment property, principally comprising leasehold land and office buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the income statement as changes in fair value of investment properties.

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(a) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

2.10.1 Classification *(cont'd)*

(b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, cash and cash equivalents and pledged bank deposits in the balance sheet.

(c) **Available-for-sale financial assets**

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

2.10.2 Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement as gains and losses on financial assets through profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established.

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

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

2.10.2 Recognition and measurement *(cont'd)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from available-for-sale financial assets'.

Dividends on available-for-sale financial assets are recognised in the income statement as dividend income from available-for-sale financial assets when the Group's right to receive payments is established.

2.10.3 Impairment of financial assets

(a) Assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

2.10.3 Impairment of financial assets *(cont'd)*

(a) Assets carried at amortised cost *(cont'd)*

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

(b) Assets classified as available-for-sale

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

2.10.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivative instruments which do not qualify for hedge accounting are accounted for at fair value through profit or loss, changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised in the income statement.

2 Significant accounting policies *(cont'd)*

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less and bank overdrafts, if any. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Current and deferred income tax

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

(a) **Current income tax**

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

2 Significant accounting policies *(cont'd)*

2.15 Current and deferred income tax *(cont'd)*

(b) **Deferred income tax**

Inside basis differences

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

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

Outside basis differences

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

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

2 Significant accounting policies *(cont'd)*

2.15 Current and deferred income tax *(cont'd)*

(c) **Offsetting**

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

2.16 Employee benefits

(a) **Pension obligations**

The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) **Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.17 Provisions

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

2 Significant accounting policies *(cont'd)*

2.17 Provisions *(cont'd)*

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

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

2.18 Revenue recognition

(a) **Rental and management fee income**
Rental and management fee income on operating leases are recognised on a straight-line basis over the lease periods.

(b) **Dividend income**
Dividend income is recognised when the right to receive payment is established.

(c) **Interest income**
Interest income is recognised on a time proportion basis using the effective interest rate method.

2.19 Operating leases

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

2.20 Borrowings

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

2 Significant accounting policies *(cont'd)*

2.20 Borrowings *(cont'd)*

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

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

2.21 Share capital

Ordinary shares are classified as equity.

3 Financial risk management

The Group's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The types of financial risk to which the Group is exposed are market risk (including equity price risk, foreign currency risk and interest rate risk), credit and counterparty risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects it may have on the Group's financial performance.

3.1 Financial risk factors

(a) **Market risk**

(i) **Equity price risk**

The Group's equity securities are exposed to price risk including currency translation difference as they are classified either as available-for-sale financial assets or as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The Group's financial assets at fair value through profit or loss are publicly traded. Had the price of these investments increased/decreased by 5% with all other variables held constant, the post-tax profit for the year ended 31 December 2016 would have been HK$8,713,000 (2015: HK$8,722,000) higher/lower.

3 Financial risk management *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(a) **Market risk** *(cont'd)*

(i) **Equity price risk** *(cont'd)*

The Group's available-for-sale financial assets are mainly equity securities. Had the price of these investments increased/decreased by 5% with all other variables held constant, the equity would have been HK$52,838,000 (2015: HK$58,456,000) higher/lower.

(ii) **Foreign currency risk**

The Group's exposure to foreign currency risk mainly arises from its investments in securities worldwide, primarily with respect to Euro and Japanese yen. The Group monitors the proportion of its financial investments denominated in non-US/HK dollars.

At 31 December 2016, had the HK dollar weakened/strengthened by 5% against the Euro with all other variables held constant, the post-tax profit for the year ended 31 December 2016 would have been HK$2,042,000 (2015: HK$1,115,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of Euro-denominated financial assets at fair value through profit or loss and short term bank loan.

At 31 December 2016, had the HK dollar weakened/strengthened by 5% against the Japanese yen with all other variables held constant, the post-tax profit for the year ended 31 December 2016 would have been HK$654,000 (2015: HK$406,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Japanese yen-denominated financial assets at fair value through profit or loss.

(iii) **Interest rate risk**

In 2015, the Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities.

The Group's borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its exposure to interest rate risk by maintaining borrowings at a low level.

As at 31 December 2016, there was no interest bearing liability.

3 Financial risk management *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(a) **Market risk** *(cont'd)*

(iii) **Interest rate risk** *(cont'd)*

As at 31 December 2015, had interest rates on borrowings been 1% higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2015 would have been HK$570,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) **Credit and counterparty risk**

The credit and counterparty risk mainly arises from debt securities investments, e.g. held under financial assets at fair value through profit or loss, deposits and cash and investments placed with banks and financial institutions and derivative financial instruments transacted with banks. The Group has limited its credit exposure by restricting their selection to financial institutions or banks with good credit rating, ranged from A to AA-.

The Group's credit risk concentration of investments of debt securities as at 31 December 2016 and 2015 is analysed below based upon the credit rating of the issuers:

	2016 HK$'000	2015 HK$'000
A to AAA	24,473	22,124
B to BBB	20,866	22,549
Unrated (Note)	25,761	19,064
	71,100	63,737

Note:

The Directors monitor the exposure on unrated assets and considered that the risk of default is minimal.

3 Financial risk management *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(c) **Liquidity risk**

In order to maintain flexibility in funding, the Group has obtained banking facilities.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents) on the basis of expected cash flows.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
At 31 December 2016			
Trade payables	3,735	–	–
Rental and management fee deposits	11,973	3,146	2,856
Other payables and accruals (less provisions)	21,918	–	–
At 31 December 2015			
Short term bank loans and interest thereon	57,496	–	–
Trade payables	2,977	–	–
Rental and management fee deposits	7,783	3,739	5,370
Other payables and accruals (less provisions)	22,773	–	–
Derivative financial liability	293	–	–

3 Financial risk management *(cont'd)*

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

During 2016 and 2015, the Group's strategy was to maintain borrowings at a low level.

As at 31 December 2016 and 2015, the debt to equity ratio is summarised as follows:

	2016 HK$'000	2015 HK$'000
Total borrowings (Note 24)	–	57,000
Total equity	3,544,683	3,584,129
Debt to equity ratio	–	1.6%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

3 Financial risk management *(cont'd)*

3.3 Fair value estimation *(cont'd)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016. See Note 13 for disclosures of the investment properties that are measured at fair value.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss	250,172	1,000	–	251,172
Available-for-sale financial assets	1,056,750	–	–	1,056,750
Total assets	1,306,922	1,000	–	1,307,922

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss	243,447	–	–	243,447
Available-for-sale financial assets	1,169,115	–	–	1,169,115
Total assets	1,412,562	–	–	1,412,562
Liabilities				
Derivative financial liability	–	293	–	293

3 Financial risk management *(cont'd)*

3.3 Fair value estimation *(cont'd)*

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

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

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

There were no transfers between any level during the year.

4 Critical accounting estimates and judgements

4.1 Estimate of fair value of investment properties

The Group's investment properties, which are leased to third parties, were revalued at 31 December 2016 by an independent professional property valuer on an open market value basis with reference to recent transaction prices of units in the same building and/or similar properties. Details of the judgement and assumptions have been disclosed in Note 13.

4.2 Classification and estimate of fair value of non-listed available-for-sale financial assets

In connection with the Group's investment in The Shanghai Commercial & Savings Bank, Ltd ("SCSB"), certain Directors of the Company are also directors of SCSB. Their appointment as directors of SCSB was not nominated by the Group and does not represent the Group's interest. Accordingly, the Group does not have significant influence in SCSB and the investments in SCSB are classified as an available-for-sale financial asset.

The fair value of non-listed available-for-sale financial assets is determined by the quoted bid price in the over-the-counter market. The Group considers that this price represents actual and regularly occurring market transactions on an arm's length basis and reflect the fair value of the investment.

5 Revenue and other income/(loss) and segment information

Revenue mainly comprises rental income, investment income from listed investments and dividend income from available-for-sale financial assets. Other income/(loss) represents net realised and unrealised gains/(losses) on financial assets at fair value through profit or loss. Revenue and other income/(loss) recognised during the year comprises the following:

	2016 HK$'000	2015 HK$'000
Revenue		
Gross rental income from investment properties	64,366	61,169
Investment income from financial assets at fair value through profit or loss	3,620	3,893
Dividend income from available-for-sale financial assets	58,477	56,277
Management fee income from investment properties	10,430	10,374
Other	231	356
	137,124	132,069
Other income/(loss)		
Net realised and unrealised gains/(losses) on financial assets at fair value through profit or loss	7,295	(6,960)
Revenue and other income/(loss)	144,419	125,109

The Group is organised on a worldwide basis into two main business segments:

Real estate	–	investment in and leasing of industrial/office premises
Financial investments	–	holding and trading of investment securities

There are no sales or other transactions between the business segments.

5 Revenue and other income/(loss) and segment information *(cont'd)*

The segment results for the year ended 31 December 2016 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Revenue and other income/(loss)	74,796	69,623	144,419
Segment result	88,378	63,629	152,007
Finance income			133
Finance expense			(425)
Share of profits of joint ventures	6,568	–	6,568
Share of loss of an associate	(14,031)	–	(14,031)
Profit before income tax			144,252
Income tax expense			(18,412)
Profit attributable to equity holders of the Company			125,840
Other items			
Depreciation	112	141	253
Fair value gain on investment properties	59,646	–	59,646

5 Revenue and other income/(loss) and segment information *(cont'd)*

The segment results for the year ended 31 December 2015 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Revenue and other income/(loss)	71,543	53,566	125,109
Segment result	112,456	47,939	160,395
Finance income			2,358
Finance expense			(822)
Share of profits of joint ventures	10,331	–	10,331
Share of profit of an associate	4,565	–	4,565
Profit before income tax			176,827
Income tax expense			(19,696)
Profit attributable to equity holders of the Company			157,131
Other items			
Depreciation	113	157	270
Fair value gain on investment properties	85,857	–	85,857

Reportable segments' assets and liabilities are reconciled to total assets and liabilities below. Segment assets exclude investments in joint ventures, investment in an associate and deferred income tax assets, and segment liabilities exclude deferred income tax liabilities and short term bank loans which are managed on a central basis.

5 Revenue and other income/(loss) and segment information *(cont'd)*

The segment assets and liabilities as at 31 December 2016 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Segment assets	2,092,062	1,377,658	3,469,720
Investments in joint ventures	101,081	–	101,081
Investment in an associate	51,772	–	51,772
			3,622,573
Segment liabilities	47,415	8,770	56,185
Unallocated liabilities			21,705
			77,890

The segment assets and liabilities as at 31 December 2015 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Segment assets	2,032,654	1,504,987	3,537,641
Investments in joint ventures	104,919	–	104,919
Investment in an associate	75,261	–	75,261
Unallocated assets			442
			3,718,263
Segment liabilities	47,526	8,635	56,161
Unallocated liabilities			77,973
			134,134

5 Revenue and other income/(loss) and segment information *(cont'd)*

The Company is incorporated in Bermuda and is domiciled in Hong Kong. The Group's revenue and other income/(loss) from Hong Kong and from other countries for the year ended 31 December is analysed as follows:

	2016 HK$'000	2015 HK$'000
Hong Kong	74,825	69,766
United States of America	6,891	(596)
Europe	2,955	(255)
Taiwan	58,477	56,277
Other countries	1,271	(83)
	144,419	125,109

At 31 December 2016, the total of non-current assets other than financial instruments and deferred income tax assets located/operated in Hong Kong and in Mainland China are as follows:

	2016 HK$'000	2015 HK$'000
Hong Kong	2,091,412	2,031,809
Mainland China	153,070	180,539
	2,244,482	2,212,348

6 Expenses by nature

	2016 HK$'000	2015 HK$'000
Auditor's remuneration	1,675	1,675
Depreciation	253	270
Direct operating expenses arising from investment properties that		
– generated rental income	2,771	2,163
– did not generate rental income	261	132
Employee benefit expense (including directors' emoluments) (Note 7)	25,699	25,433
Management fee expense in respect of investment properties	11,086	11,012
Operating lease payments on land and buildings	3,792	3,699
Legal and professional fee	593	1,017
Exchange losses	61	237
Unrealised fair value loss on derivative financial instruments	–	293
Realised fair value loss on derivative financial instruments	578	–
Others	5,289	4,640
Total direct costs, administrative expenses and other operating expenses	52,058	50,571

7 Employee benefit expense

	2016 HK$'000	2015 HK$'000
Wages and salaries	25,481	24,989
Retirement benefit costs – defined contribution plans (Note a)	218	444
	25,699	25,433

7 Employee benefit expense *(cont'd)*

Notes:

(a) **Retirement scheme – defined contribution plans**

The Group contributes to a defined contribution retirement scheme which is available to certain Hong Kong senior employees ("Senior Staff Scheme"). With effect from 1 December 2000, a mandatory provident fund scheme has been set up for the other eligible employees of the Group in Hong Kong. Contributions to the schemes by the Group are made at a certain percentage of basic monthly salary. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions to the Senior Staff Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There was no contribution forfeited during the year (2015: Nil). Contributions totaling HK$32,950 (2015: HK$30,000) were payable to the schemes at the year end, which are included in trade and other payables.

(b) **Directors' and senior management's emoluments**

The remuneration of every Director for the year ended 31 December 2016 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Housing allowances HK$'000	Other benefits # HK$'000	Employer's contributions to retirement scheme HK$'000	Total HK$'000
Mr. Rudolf Bischof	420	–	–	–	–	–	420
Mr. Hung Ching Yung	24	4,953	2,000	291	218	18	7,504
Mr. Lincoln C. K. Yung	24	4,953	2,000	115	179	18	7,289
Mr. Robert Tsai To Sze	420	–	–	–	–	–	420
Mr. John Con-sing Yung	180	–	–	–	–	–	180
Mr. Kwan Wing Kwong Zachary (Note ii)	360	–	–	–	–	–	360
Mr. Wong Chi Kwong Patrick (Note iii)	68	–	–	–	–	–	68
Ms. Jennie Chen	24	2,013	476	–	–	18	2,531
Total	1,520	11,919	4,476	406	397	54	18,772

7 Employee benefit expense *(cont'd)*

(b) Directors' and senior management's emoluments *(cont'd)*

The remuneration of every Director for the year ended 31 December 2015 is set out below:

Name of Director	Fees	Salaries	Discretionary bonuses	Housing allowances	Other benefits #	Employer's contributions to retirement scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Rudolf Bischof	420	–	–	–	–	–	420
Mr. Hung Ching Yung	24	4,953	2,000	289	198	18	7,482
Mr. Lincoln C. K. Yung	24	4,953	2,000	112	125	18	7,232
Mr. James Julius Bertram (Note i)	180	–	–	–	–	–	180
Mr. Robert Tsai To Sze	420	–	–	–	–	–	420
Mr. John Con-sing Yung	180	–	–	–	–	–	180
Mr. Kwan Wing Kwong Zachary (Note ii)	119	–	–	–	–	–	119
Ms. Jennie Chen	24	1,768	476	–	–	245	2,513
Total	1,391	11,674	4,476	401	323	281	18,546

\# Other benefits represent motor vehicle expenses.

Notes:

(i) Mr. James Julius Bertram passed away on 18 June 2015.

(ii) Mr. Kwan Wing Kwong Zachary was appointed on 2 September 2015.

(iii) Mr. Wong Chi Kwong Patrick was appointed on 24 October 2016.

7 Employee benefit expense *(cont'd)*

(c) **Five highest paid individuals**

The five highest paid individuals in the Group include 3 (2015: 3) Directors whose emoluments are reflected in the analysis presented in Note 7(b) above. The emoluments payable to the remaining individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, housing and other allowances and benefits in kind	2,917	2,932
Contributions to retirement scheme	36	36
	2,953	2,968

The emoluments fell within the following bands:

	Number of individuals 2016	2015
Emolument bands (in Hong Kong dollars)		
HK$1,000,001 – HK$1,500,000	1	1
HK$1,500,001 – HK$2,000,000	1	1

8 Finance income/(expense)

	2016 HK$'000	2015 HK$'000
Finance income		
Net exchange gain on financing activities	133	2,358
Finance expense		
Interest expense on bank loan	(425)	(822)

9 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. Withholding tax on dividends receivable from overseas investments including joint ventures and an associate has been calculated at the rates of taxation prevailing in the countries in which the investments operate.

The amount of taxation charged to the consolidated income statement represents:

	2016 HK$'000	2015 HK$'000
Current income tax		
– Hong Kong profits tax	3,661	3,215
– Withholding tax	13,620	15,379
– Over-provision in prior years	(43)	(203)
	17,238	18,391
Deferred income tax (Note 26)	1,174	1,305
	18,412	19,696

The Group's share of income tax expense of joint ventures and an associate for the year amounted to HK$62,759,000 (2015: HK$6,457,000) and is included in the consolidated income statement as share of results of joint ventures and an associate.

9 Income tax expense *(cont'd)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Group operates, and the difference is set out below:

	2016 HK$'000	2015 HK$'000
Profit before income tax	144,252	176,827
Less: share of profits of joint ventures	(6,568)	(10,331)
Less: share of loss/(profit) of an associate	14,031	(4,565)
	151,715	161,931
Calculated at a tax rate of 16.5% (2015: 16.5%)	25,032	26,719
Income not subject to tax	(21,692)	(24,082)
Expenses not deductible for tax purposes	1,390	1,892
Over-provision for current income tax in prior years	(43)	(203)
Effect of unrecognised temporary differences	46	(4)
Utilisation of previously unrecognised tax losses	–	(5)
Tax loss not recognised	58	–
Withholding tax on dividend income from overseas investments and a joint venture	13,621	15,379
Income tax expense	18,412	19,696

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2016	2015
Earnings (HK$'000)		
Profit attributable to equity holders of the Company	125,840	157,131
Number of shares (thousands)		
Weighted average number of ordinary shares in issue	35,247	35,262
Earnings per share (HK$)		
Basic and diluted (Note)	3.57	4.46

Note:

The Company has no dilutive potential ordinary shares and basic earnings per share are equal to diluted earnings per share.

11 Dividends

	2016 HK$'000	2015 HK$'000
2016 proposed final dividend of HK$0.60 (2015: HK$0.60) per share	21,136	21,157
2016 proposed special dividend of HK$0.40 (2015: HK$0.40) per share	14,090	14,105
	35,226	35,262

At a meeting held on 27 March 2017 the Directors proposed a final dividend of HK$0.60 (2015: HK$0.60) per share and a special dividend of HK$0.40 (2015: HK$0.40) per share representing a total dividend distribution of approximately HK$35.2 million (2015: HK$35.3 million). These proposed dividends are to be approved by the shareholders at the Annual General Meeting on 25 May 2017 and are not reflected as dividends payable in these financial statements.

12 Property, plant and equipment

	Properties HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2016			
Opening net book amount	536	262	798
Addition	–	4	4
Depreciation	(171)	(82)	(253)
Closing net book amount	365	184	549
At 31 December 2016			
Cost	6,089	2,415	8,504
Accumulated depreciation and impairment losses	(5,724)	(2,231)	(7,955)
Net book amount	365	184	549
Year ended 31 December 2015			
Opening net book amount	723	310	1,033
Addition	–	35	35
Depreciation	(187)	(83)	(270)
Closing net book amount	536	262	798
At 31 December 2015			
Cost	6,089	2,422	8,511
Accumulated depreciation and impairment losses	(5,553)	(2,160)	(7,713)
Net book amount	536	262	798

13 Investment properties

	2016 HK$'000	2015 HK$'000
At fair value		
Opening balance at 1 January	2,031,370	1,945,200
Additions	64	313
Fair value changes	59,646	85,857
Closing balance at 31 December	2,091,080	2,031,370

The Group's investment properties with an aggregate carrying value of HK$1,942,000,000 (2015: HK$1,892,000,000) have been mortgaged to a bank to secure general banking facilities. As at 31 December 2016, no bank facilities (2015: HK$40,000,000) was utilized (Note 24).

Valuation processes of the Group

The basis of the valuation of investment properties is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The investment properties were revalued by Prudential Surveyors International Limited, independent qualified valuers not related to the Group, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued, at 31 December 2016. For all investment properties, their current use equates to the highest and best use.

The Group's finance department reviews the valuations performed by the independent valuers for financial reporting purposes. This department reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

13 Investment properties *(cont'd)*

Valuation processes of the Group *(cont'd)*

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuers.

Valuation techniques

Fair value measurements using significant unobservable inputs

Fair values of completed industrial and commercial properties in Hong Kong are generally derived using the direct comparison method. Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

As at 31 December 2016, all investment properties are included in level 3 fair value hierarchy.

There were no change to the valuation techniques during the year and there were no transfers between fair value hierarchies during the year.

13 Investment properties *(cont'd)*

Significant inputs used to determine fair value

Information about fair value measurements using significant unobservable inputs for the Group's principal investment properties

Descriptions	Fair Value 2016 HK$'000	Fair Value 2015 HK$'000	Valuation techniques	Unobservable inputs	Relationship of unobservable inputs of fair value
Commercial	1,991,480	1,939,470	Direct comparison	Average unit rate – HK$6,047 – HK$13,308 per square feet (2015: HK$5,989 – HK$12,768 per square feet) Carpark: HK$920,000 – HK$1,260,000 per unit (2015: HK$762,000 – HK$1,040,000 per unit)	The higher the unit price, the higher the fair value
Industrial	99,600	91,900	Direct comparison	Average unit rate – HK$2,367 per square feet (2015: HK$2,184 per square feet) Carpark: HK$380,000 – HK$460,000 per unit (2015: HK$346,000 – HK$420,000 per unit)	The higher the unit price, the higher the fair value
	2,091,080	2,031,370			

14 Investments in joint ventures

	2016 HK$'000	2015 HK$'000
Share of net assets	101,081	104,919

The following is a list of the principal joint ventures indirectly held by the Company as at 31 December 2016:

Name	Place of establishment/ incorporation and kind of legal entity	Principal activities and place of operation	Attributable interest to the Group: Equity interest	Attributable interest to the Group: Profit sharing	Attributable interest to the Group: Voting power
Shanghai Sung Nan Textile Co., Ltd (Note a)	People's Republic of China, limited liability company	Property investment in the People's Republic of China	64.68%	64.68%	57%
Southern Textile Company Limited	People's Republic of China, limited liability company	Property investment in the People's Republic of China	45%	45%	43%

Note:

(a) Since unanimous consent of all the parties sharing control is required for resolution of important strategic decisions including financial and operating, the investment was classified as joint venture even though the Group has a 57% voting interest.

(b) All companies above are private and there is no quoted price available for their shares.

There are no commitment and contingent liabilities relating to the Group's investments in its joint ventures.

15 Investment in an associate

	2016 HK$'000	2015 HK$'000
Share of net assets	50,427	73,916
Costs directly attributable for the investment	1,345	1,345
	51,772	75,261

The following is a list of the principal associates indirectly held by the Company as at 31 December 2016:

Name	Place of establishment/ incorporation and kind of legal entity	Principal activities and place of operation	Equity interest
HSL China Metropolitan Fund I L.P. ("HSL") (Note b)	Cayman Islands, limited partnership	Investment holding in the People's Republic of China	16.7%
Ruskin Overseas Limited ("Ruskin")	British Virgin Islands, limited liability company	Investment holding in the People's Republic of China	16.7%
Kinetic Profit Property (Shanghai) Company Limited ("Kinetic")	People's Republic of China, limited liability company	Property investment in the People's Republic of China	16.7%

Notes:

(a) All companies above are private and there is no quoted price available for their shares.

(b) The Group holds less than 20 per cent of the equity interest of HSL. It accounts for its investment in HSL as an associate as it has the ability to exercise significant influence over the investment due to its representation on key decision-making committees.

There are no contingent liabilities relating to the Group's investment in its associate.

16 Financial instruments by category

	Loans and receivables HK$'000	Assets at fair value through profit and loss HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
31 December 2016				
Assets as per consolidated balance sheet				
Available-for-sale financial assets	–	–	1,056,750	1,056,750
Financial assets at fair value through profit or loss	–	251,172	–	251,172
Trade and other receivables (excluding deposits and prepayments)	4,381	–	–	4,381
Cash and cash equivalents	58,896	–	–	58,896
	63,277	251,172	1,056,750	1,371,199
31 December 2015				
Assets as per consolidated balance sheet				
Available-for-sale financial assets	–	–	1,169,115	1,169,115
Financial assets at fair value through profit or loss	–	243,447	–	243,447
Trade and other receivables (excluding deposits and prepayments)	1,064	–	–	1,064
Cash and cash equivalents	44,696	–	–	44,696
Pledged bank deposits	38,416	–	–	38,416
	84,176	243,447	1,169,115	1,496,738

16 Financial instruments by category *(cont'd)*

	Derivatives HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
31 December 2016			
Liabilities as per consolidated balance sheet			
Trade and other payables (excluding provisions)	–	43,628	43,628
31 December 2015			
Liabilities as per consolidated balance sheet			
Short term bank loans	–	57,000	57,000
Trade and other payables (excluding provisions)	–	42,642	42,642
Derivative financial liabilities	293	–	293
	293	99,642	99,935

17 Available-for-sale financial assets

	2016 HK$'000	2015 HK$'000
At 1 January	1,169,115	1,366,156
Disposals	–	(101)
Exchange gains/(losses)	525	(1,053)
Net fair value losses recognised in equity	(112,890)	(195,887)
At 31 December	1,056,750	1,169,115

17 Available-for-sale financial assets *(cont'd)*

	2016 HK$'000	2015 HK$'000
Listed equity securities – Hong Kong	9,315	9,034
Unlisted securities – outside Hong Kong		
– Equity securities	1,047,052	1,159,696
– Venture capital funds	383	385
	1,047,435	1,160,081
	1,056,750	1,169,115

The available-for-sale financial assets are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
New Taiwan dollars (Note)	1,047,052	1,159,696
Others	9,698	9,419
	1,056,750	1,169,115

Note:

The available-for-sale financial assets represented the following investment:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Group equity interest
The Shanghai Commercial & Savings Bank, Ltd.	Taiwan	Commercial banking business	3,999,120,725 ordinary shares of NT$10 each	4.1%

The fair value of all securities is based on their current bid prices in an active market.

18 Trade and other receivables

	2016 HK$'000	2015 HK$'000
Trade receivables (Note a)	830	89
Other receivables, prepayments and deposits	8,717	7,588
Amounts due from joint ventures (Note c)	1,726	2,120
	11,273	9,797

Notes:

(a) The Group does not grant any credit term to customers. Trade receivables represent rental income receivable from tenants. Rental income is charged in advance to the tenants at the beginning of each month which becomes due upon the issue of invoices. As at the respective balance sheet dates, the trade receivables were all past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. At 31 December 2016, the aging analysis of the trade receivables is as follows:

	2016 HK$'000	2015 HK$'000
Within 30 days	830	48
31 – 60 days	–	41
	830	89

There is no concentration of credit risk with respect to trade receivables.

(b) The carrying amounts of trade and other receivables approximate their fair values.

(c) The amounts due from joint ventures are unsecured, interest free and repayable on demand.

(d) The trade and other receivables are mainly denominated in Hong Kong dollars.

(e) The maximum exposure to credit risk at the reporting date is the carrying value of the receivable mention above. The Group does not hold any collateral as security.

19 Financial assets at fair value through profit or loss

	2016 HK$'000	2015 HK$'000
Listed equity securities:		
– Hong Kong	34,124	32,052
– outside Hong Kong	144,949	147,658
	179,073	179,710
Listed debt securities:		
– outside Hong Kong	71,099	63,737
Unlisted debt securities:		
– Hong Kong	1,000	–
	251,172	243,447

The above financial assets at fair value through profit or loss are held for trading purposes. They are presented within the section on operating activities as part of changes in working capital in the consolidated statement of cash flows (Note 27).

The fair value of all equity securities is based on their current bid prices in an active market.

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as financial assets at fair value through profit or loss.

In 2015, the Group's financial assets at fair value through profit or loss with an aggregate carrying value of HK$83,012,000 together with the bank deposit (Note 20(a)) were pledged to secure general banking facilities of which HK$17,000,000 was utilised as at 31 December 2015 (Note 24) and fully repaid during 2016.

19 Financial assets at fair value through profit or loss *(cont'd)*

The financial assets at fair value through profit or loss are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Euro	40,847	39,304
Japanese yen	13,089	8,112
Hong Kong dollars	36,105	32,052
United States dollars	159,015	162,860
Others	2,116	1,119
	251,172	243,447

20 Cash and bank balances

	2016 HK$'000	2015 HK$'000
Cash at bank and on hand	58,896	83,112
Less: pledged bank deposits (Note a)	–	(38,416)
Cash and cash equivalents	58,896	44,696

Notes:

(a) In 2015, the bank deposits with value of HK$38,416,000 has been pledged to secure general banking facilities.

(b) The carrying amounts of cash and cash equivalents are mainly denominated in United States dollars and Hong Kong dollars.

(c) Maximum exposure to credit risk is HK$58,896,000 (2015: HK$83,112,000).

21 Share capital

	Number of Shares	Amount HK$'000
Ordinary share, issued and fully paid:		
At 1 January 2015, 31 December 2015 and 1 January 2016	35,261,738	3,526
Repurchase of own shares	(35,500)	(3)
At 31 December 2016	35,226,238	3,523

During the year, the Group repurchased a total of 35,500 of its own shares through purchases on The Stock Exchange of Hong Kong Limited on 25 January 2016, 26 January 2016, 9 November 2016, 22 November 2016 and 12 December 2016. The aggregate price of HK$1,432,000 paid was charged against retained profits and the nominal value of the shares repurchased of HK$3,550 was transferred to the capital redemption reserve.

22 Reserves

	Contributed surplus HK$'000	Available-for-sale investments reserves HK$'000	Property revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	General reserve HK$'000	Statutory and other reserves HK$'000	Translation reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance as at 1 January 2016	2,459	825,066	56,175	1,000	76,000	15,533	(2,834)	1,474	2,605,730	3,580,603
Fair value losses on available-for-sale financial assets	–	(112,890)	–	–	–	–	–	–	–	(112,890)
Currency translation differences	–	–	–	–	–	–	(15,714)	–	–	(15,714)
2015 final dividend	–	–	–	–	–	–	–	–	(21,150)	(21,150)
2015 special dividend	–	–	–	–	–	–	–	–	(14,100)	(14,100)
Profit for the year	–	–	–	–	–	–	–	–	125,840	125,840
Transfer between statutory reserves of a joint venture, net	–	–	–	–	–	(8,786)	–	–	8,786	–
Shares repurchased and cancelled	–	–	–	–	–	–	–	3	(1,432)	(1,429)
At 31 December 2016	2,459	712,176	56,175	1,000	76,000	6,747	(18,548)	1,477	2,703,674	3,541,160

22 Reserves *(cont'd)*

	Contributed surplus HK$'000	Available-for-sale investments reserves HK$'000	Property revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	General reserve HK$'000	Statutory and other reserves HK$'000	Translation reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance as at 1 January 2015	2,459	1,020,953	56,175	1,000	76,000	15,084	7,863	1,474	2,491,362	3,672,370
Fair value losses on available-for-sale financial assets	–	(195,887)	–	–	–	–	–	–	–	(195,887)
Currency translation differences	–	–	–	–	–	–	(10,697)	–	–	(10,697)
2014 final dividend	–	–	–	–	–	–	–	–	(21,157)	(21,157)
2014 special dividend	–	–	–	–	–	–	–	–	(21,157)	(21,157)
Profit for the year	–	–	–	–	–	–	–	–	157,131	157,131
Transfer to statutory reserves of a joint venture	–	–	–	–	–	449	–	–	(449)	–
At 31 December 2015	2,459	825,066	56,175	1,000	76,000	15,533	(2,834)	1,474	2,605,730	3,580,603

Pursuant to a group reorganisation in 1989, the Company acquired all the issued shares of Nanyang Cotton Mill Limited ("NCML") in exchange for the Company's new shares issued. The Group's contributed surplus represents the difference between the nominal value of NCML's shares and the nominal value of the Company's shares issued pursuant to the group reorganisation less subsequent distribution. The Company's contributed surplus represents the difference between the nominal value of the Company's shares issued and the consolidated net assets of NCML acquired under the group reorganisation as at the date of acquisition less subsequent distribution.

Statutory reserves are created in accordance with the terms of the joint venture agreements of the joint ventures established in the People's Republic of China and are required to be retained in the financial statements of the entities for specific purposes. The statutory reserves at 31 December 2016 comprise statutory surplus reserve of HK$3,373,500 (2015: HK$7,766,500) and enterprise development reserve of HK$3,373,500 (2015: HK$7,766,500) which are appropriated from the retained profits of the joint ventures.

General reserve arose from transfers from retained profits and has no specific purpose.

23 Trade and other payables

	2016 HK$'000	2015 HK$'000
Trade payables (Note a)	3,735	2,977
Rental and management fee deposits	17,975	16,892
Other payables and accruals	34,014	34,584
	55,724	54,453

Notes:

(a) At 31 December 2016, the aging analysis of the trade payables is as follows:

	2016 HK$'000	2015 HK$'000
Within 30 days	3,188	2,637
31 – 60 days	547	340
	3,735	2,977

(b) The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in United States dollars and Hong Kong dollars.

24 Short term bank loans – secured

	2016 HK$'000	2015 HK$'000
Secured bank loans (Note)	–	57,000

Notes:

(a) The loans were fully repaid in 2016.

(b) The loans had an effective interest rate of 0.87% per annum at 31 December 2015.

(c) The carrying amounts of the loans approximated their fair values.

(d) At 31 December 2015, the secured bank loans were secured by one or more of the following:

(i) investment properties of the Group (Note 13);

(ii) pledge of financial assets at fair value through profit and loss (Note 19);

(iii) pledge of bank deposits (Note 20);

(e) The loans were denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Hong Kong dollars	–	40,000
Euro	–	17,000
	–	57,000

25 Derivative financial liabilities

	2016 HK$'000	2015 HK$'000
Forward exchange contracts	–	293

The maximum exposure to credit risk at the reporting date is the carrying value of the derivative financial liabilities in the consolidated balance sheet.

26 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method.

	2016 HK$'000	2015 HK$'000
Deferred income tax assets		
– to be recovered after more than 12 months	–	–
– to be recovered within 12 months	–	442
	–	442
Deferred income tax liabilities		
– to be settled after more than 12 months	(21,705)	(19,819)
– to be settled within 12 months	–	(1,154)
	(21,705)	(20,973)
	(21,705)	(20,531)

26 Deferred income tax *(cont'd)*

The net movement on the deferred income tax account is as follows:

	2016 HK$'000	2015 HK$'000
Balance at 1 January	(20,531)	(19,226)
Tax charged to the consolidated income statement (Note 9)	(1,174)	(1,305)
At 31 December	(21,705)	(20,531)

The movement in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax authority during the year is as follows:

Deferred income tax liabilities:

	Accelerated tax depreciation HK$'000
At 1 January 2015	(19,819)
Charged to the consolidated income statement	(1,154)
At 31 December 2015 and 1 January 2016	(20,973)
Charged to the consolidated income statement	(1,013)
At 31 December 2016	(21,986)

26 Deferred income tax *(cont'd)*

Deferred income tax assets:

	Tax losses HK$'000
At 1 January 2015	593
Charged to the consolidated income statement	(151)
At 31 December 2015 and 1 January 2016	442
Charged to the consolidated income statement	(161)
At 31 December 2016	281

Deferred income tax assets are recognised for tax losses carried forwards to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax assets of HK$1,175,000 (2015: HK$983,000) in respect of tax losses amounting to HK$7,123,000 (2015: HK$5,955,000). These tax losses have no expiry date.

27 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit before income tax to net cash generated from operations:

	2016 HK$'000	2015 HK$'000
Profit before income tax	144,252	176,827
Share of profits of joint ventures	(6,568)	(10,331)
Share of (loss)/profit of an associate	14,031	(4,565)
Finance expense	425	822
Dividend income from available-for-sale financial assets	(58,477)	(56,277)
Exchange translation differences	(23)	15
Depreciation	253	270
Changes in fair value of investment properties	(59,646)	(85,857)
Operating profit before working capital changes	34,247	20,904
(Increase)/decrease in trade and other receivables	(1,476)	13,014
(Increase)/decrease in financial assets at fair value through profit or loss	(7,725)	3,516
Increase in trade and other payables	1,271	1,904
(Decrease)/increase in derivative financial liabilities	(293)	293
Net cash generated from operations	26,024	39,631

(b) Dividends received from a joint venture and available-for-sale financial assets:

	2016 HK$'000	2015 HK$'000
Dividends received	62,100	59,990
Withholding tax paid	(13,620)	(15,379)
	48,480	44,611

28 Operating leases commitments

At 31 December, the Group had future aggregate minimum lease payments under non-cancellable operating leases for office premises as follows:

	2016 HK$'000	2015 HK$'000
Not later than one year	3,642	394
Later than one year and not later than five years	4,098	–
	7,740	394

29 Future rental receivables

At 31 December, minimum lease rentals under non-cancellable operating leases of the investment properties not recognised in the financial statements as receivables are as follows:

	2016 HK$'000	2015 HK$'000
Within one year	59,874	45,004
Later than one year but not later than 5 years	62,793	34,978
	122,667	79,982

30 Related party transactions

In addition to the related party information and transactions disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year.

Key management compensation

	2016 HK$'000	2015 HK$'000
Salaries and other short term employee benefits	19,170	18,861
Contributions to retirement schemes	72	299
	19,242	19,160

31 Balance sheet and reserve movement of the Company

	As at 31 December	
	2016	2015
	HK$'000	HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	378,782	378,782
Current assets		
Trade and other receivables	166	319
Amount due from subsidiaries	152,803	152,803
Cash and cash equivalents	3,956	2,715
	156,925	155,837
Total assets	535,707	534,619
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	3,523	3,526
Other reserves (Note)	357,718	357,715
Retained profits (Note)	83,393	79,370
Total equity	444,634	440,611
LIABILITIES		
Current liabilities		
Trade and other payables	91,073	94,008
Total equity and liabilities	535,707	534,619

The balance sheet of the Company was approved by the Board of Directors on 27 March 2017 and was signed on its behalf.

Hung Ching Yung
Director

Lincoln C. K. Yung
Director

31 Balance sheet and reserve movement of the Company *(cont'd)*

Note:

Reserve movement of the Company

	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	356,241	1,474	79,370	437,085
Profit for the year	–	–	40,705	40,705
Share repurchased and cancelled	–	3	(1,432)	(1,429)
2015 final dividend (Note 11)	–	–	(21,150)	(21,150)
2015 special dividend (Note 11)	–	–	(14,100)	(14,100)
At 31 December 2016	356,241	1,477	83,393	441,111
At 1 January 2015	356,241	1,474	60,026	417,741
Profit for the year	–	–	61,658	61,658
2014 final dividend (Note 11)	–	–	(21,157)	(21,157)
2014 special dividend (Note 11)	–	–	(21,157)	(21,157)
At 31 December 2015	356,241	1,474	79,370	437,085

32 Subsidiaries

Details of the subsidiaries as at 31 December 2016 are as follows:

	Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest 2016	Group equity interest 2015
	Bright Honest Investment Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding	50,000 shares of US$1 each	100%	100%
	Cottage Investments Co SA	Panama, limited liability company	Hong Kong	Investment holding	100 common shares without par value issued at US$10 each and 100 common shares of US$10 each	100%	100%
+	Culvert Investments Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding	100 shares of US$1 each	100%	100%
	East Coast Investments Ltd	Hong Kong, limited liability company	Hong Kong	Investment trading	2 ordinary shares	100%	100%
	Highriver Estates Ltd	Hong Kong, limited liability company	Hong Kong	Property investment	2 ordinary shares	100%	100%
	Infinity Peace Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding	100 shares without par value issued at US$1 each	100%	100%
	Mepal International Ltd	Hong Kong, limited liability company	Hong Kong	Property investment	3 ordinary shares	100%	100%
	Merry Co Inc	Liberia, limited liability company	The People's Republic of China	Property Holding	1 share without par value issued at US$1,000	100%	100%
	Nanyang Cotton Mill Ltd	Hong Kong, limited liability company	Hong Kong	Investment holding and property investment	25,000,000 ordinary shares	100%	100%

32 Subsidiaries *(cont'd)*

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest 2016	Group equity interest 2015
Nanyang Industrial (China) Ltd	Hong Kong, limited liability company	Hong Kong	Investment holding	2 ordinary shares	100%	100%
Nanyangetextile.com Ltd	Hong Kong, limited liability company	Hong Kong	Inactive	2 ordinary shares	100%	100%
Peninsular Inc	Liberia, limited liability company	Hong Kong	Investment holding	1 share without par value issued at HK$10,000	100%	100%
Peninsular Yarn and Fabric Merchandising Ltd	Hong Kong, limited liability company	Hong Kong	Property investment	1,000 ordinary shares	100%	100%
Velden Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding and trading	10,000 ordinary shares of US$1 each	100%	100%

+ Subsidiary held directly by the Company.

Schedule of Principal Properties

As at 31 December 2016 and 2015

Investment properties

Description	Lot number	Type	Lease term	Group's Interest
Units 2006-2008, 20/F, Fortress Tower, 250 King's Road	IL 8416 Hong Kong	Commercial	Medium term leasehold	100%
Nanyang Plaza 57 Hung To Road (Various units with a total floor area of 289,375 sq ft and all car parks)	KTIL 46	Commercial/ Industrial	Medium term leasehold	100%
Units A-D, 5/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po	DD 11 Lot No.1637	Industrial	Medium term leasehold	100%